R4105-79F 13/9D

The Conference Board

KPMG Peat Marwick
Executive Education

New Directions in Internal Auditing

Highlights are:

- *internal auditors taking on new responsibilities*
- *computers assisted auditing techniques changing how internal auditors work and think*
- *more formal education and more on-the-job training to be required*
- *Treadway Commission's recommendations win strong endorsement*

Research Report No. 946

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Conference Board Report No. 946 Printed in U.S.A.

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ISBN NO.: 0-8237-0392-4

New Directons in Internal Auditing

By Jonathan B. Schiff

A Report from The Conference Board and KPMG Peat Marwick

Author's Acknowledgments

I'd like to recognize the contributions of those individuals without whose help this study would not have come to fruition:

- The members of the project advisory panel—Charles Brown, J. C. Penney Company; Wolfhart Kasparek, Mercedes Benz Credit; Clarence Peterson, III, Merrill Lynch and Company; Jerome Kever, Santa Fe Southern Pacific Corporation; and Salvatore Rubino, Empire Blue Cross and Blue Shield—made many useful suggestions as they reviewed the draft survey questionnaire. The strong response rate by chief internal auditors was in good part the result of the panel's work.
- Those chief internal auditors who made themselves available for interviews offered candid comments that have enriched the analysis.
- Francis Walsh and James K. Brown of The Conference Board and Robert D. Gilges, Lysle P. Hollenbeck, Barbara J. Paz and Robert D. Miller, all of KMPG Peat Marwick, offered much support and encouragement.

My thanks to them all.

Finally, I am indebted to the late Partner-in-Charge of Executive Education at KMPG Peat Marwick, C. K. Poe Fratt, for his initial interest in this project. He is missed.

J.B.S.

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A summary of publications, professional papers, references, and related activities is available upon request.

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Foreword

Corporate internal auditing has undergone many changes during the last decade. Increased business risk and competition, the ubiquitous computerization of financial and operating information, dramatic incidents of fraudulent financial reporting (leading to the Treadway Commission Report), as well as mounting complexity in the financial reporting environment, have created new demands on and opportunities for this indispensable function. This research study sheds light on current practices in internal auditing, and provides insights into its future direction.

We extend thanks to the 375 chiefs of internal auditing whose responses to a lengthy questionnaire form the factual basis for this study. They were also generous in providing company documents, some of which appear as illustrative material in the text and in the appendices. Fourteen of the respondents did us the additional favor of contributing their experiences and perspectives in personal interviews.

The study was funded by a grant from KPMG Peat Marwick's Executive Education Group. Members of the group's staff and of The Conference Board's Management Functions Program Group worked closely with the author, Dr. Jonathan B. Schiff, Professor of Accounting at Fairleigh Dickinson University, at every stage of the investigation.

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Highlights

Greater reliance by top management on the expertise of internal auditors and changes such as the growing importance of the computer, recent FASB and SEC requirements, and new auditing standards have expanded the role of the internal auditor in many companies. In addition to carrying out financial, operational and compliance audits (often more complicated than they used to be), internal auditors have become increasingly and more deeply involved in fraud auditing, EDP and systems auditing, and internal consulting. These developments have led the internal audit staff to acquire new knowledge and skills—for example, computer assisted audit techniques (CAATs). These trends are expected to continue. Indeed, the growing use of CAATs is likely to change the way internal auditors work and think.

Reporting and Other Relationships

Three-fourths of the chief internal auditors responding to the survey report to either the chief financial officer (48 percent), the CEO (17 percent), or to the audit committee (10 percent). Only 15 percent still report to the controller. In contrast, a 1963 Conference Board research study found that 54 percent of chief internal auditors reported to the controller. Although 96 percent of the companies represented in this study are organized into business units or divisions, less than a quarter supplement the corporate staff with divisional internal audit groups.

More than 90 percent of the surveyed chief internal auditors are satisfied with top management support. Independent of their line reporting relationships, most auditors maintain a strong and constructive relationship with the audit committee, reflected by regular meetings (some of them private) with the audit committee. Almost all respondents find their audit committees to be effective.

The great majority of chief internal auditors declare themselves satisfied or very satisfied with their working relationship with external auditors.

The Staff

Almost three out of four chief internal auditors believe that their current staffing levels are adequate. The incidence of this opinion is higher among respondents employed by larger companies than it is among those associated with smaller companies. As one would expect, there is a strong

Methodology

Seven hundred and thirty-five chief internal auditors who work for U.S. Associates of The Conference Board were sent a 14-page survey in mid-1988. The survey instrument was developed by the author, representatives of the two sponsoring organizations, and a project advisory panel of five chief internal auditors representing companies in different industries. Three hundred and seventy-five surveys were returned—a 51 percent response rate. In addition, interviews were conducted with 14 chief internal auditors to glean their views on current practices and expected developments in the field.

Those who completed questionaires represented companies engaged in 51 industries, which were classified into seven primary groups:

Group	*Percent of Companies*
Manufacturing	55
Financial Services	20
Utility	14
Transportation	2
Retail	2
Diversified	4
Other Services	3
Total	100

These seven groups are used throughout this report to help analyze the voluminous data resulting from the robust survey response.

The companies were also classified according to their size. For financial companies, the surrogate criterion was total assets. For most companies, the criterion was total assets. These groupings are also used for analysis.

Sales (Assets)	*Percent of Companies*
$25-499 million	17
$500-999 million	14
$1-1.9 billion	16
$2-2.9 billion	7
$3-4.9 billion	15
$5 billion+	31
Total	100

Of the companies represented in the survey 78 percent are publicly held, and 22 percent, privately owned.

relationship among internal audit staff size, budget, and company size, with the house evenly divided over the controversial question of allocating internal audit costs to users. Half the companies represented in the study do allocate these costs, the other half do not.

Almost two-thirds of the companies view internal audit assignments as a "tour of duty" customarily running two to four years, not as a career; these companies typically use the internal audit experience as a training opportunity for future financial and operational management positions.

With the mounting breadth and complexity of activities in which internal auditors are involved, the outlook is for higher educational standards for the audit staff; greater desirability of certification; and increased in-house training.

The Chief Internal Auditor

Seventy percent of the study participants majored in accounting in their undergraduate programs. Most of those who have pursued graduate studies focused on finance. Two-thirds are Certified Public Accountants; about a fifth are Certified Internal Auditors. Sixty-three percent have a public accounting background. In contrast, just under half have corporate financial management experience, and only 18 percent of the respondents have operating management experience.

Treadway Recommendations

The respondents express strong support for most of the recommendations contained in the Report of the National Commission on Fraudulent Financial Reporting (Treadway Commission). However, concerns were expressed regarding the following three recommendations: (1) increased involvement by external auditors in the review of quarterly or interim financial reports; (2) the nature of audit committee "oversight" related to quarterly or interim financial reporting; and (3) financial hardship encountered by smaller public companies should they be required to adopt all the Treadway recommendations.

Chapter 1

The Scope of Internal Auditing

The term "internal auditing" is elusive, given the dramatic changes in this internal control function over the last two decades and differing corporate approaches towards it. This study has found that internal auditing has evolved into a broad field, involving many activities and responsibilities. Added to the more traditional roles of internal auditors—financial, operational, and compliance auditing, for example—internal auditors are taking on new responsibilities resulting from changes both inside and outside the corporation.

Among the most significant of these changes is the growing importance of the computer, which has provided internal auditors with both more areas to be audited (EDP auditing) and new tools to help them perform their jobs, such as computer assisted auditing techniques (CAATS). Another change that has affected internal auditors' responsibilities is the regulatory environment. New responsibilities for the internal auditor have resulted from changing FASB requirements, SEC regulations, and auditing standards. Within the corporation, the growing respect with which internal auditors are held has led many firms to rely heavily on the auditors' expertise. Internal consulting has become, for many internal auditors another major area of responsibility.

Furthermore, the function of internal auditing varies considerably among corporations, according to both company size and industry, as well as specific corporate cultures. Nevertheless, to provide a framework for this report, the following definition is offered: *Internal auditing is a key element within the overall internal control framework of the organization. It reviews and analyzes the integrity of financial, operating, and systems activities, or any other organizational activity that management requires. The objective of these reviews and analyses is to enhance the efficiency, effectiveness, and profitability of the organization and its components.*

Internal Audit Activities

Auditors and non-auditors often speak in terms of financial, operational, compliance, systems, and management auditing, but these terms have not been well defined. As one audit director consulted for this study said, "My recent experience with interviewing prospective candidates for audit manager and audit senior makes me skeptical that there is a clear understanding of what constitutes financial auditing and what is understood by operational auditing."

The box below classifies auditing activities and provides the definitions that will be used in this report. Of course, the activities involved in a given audit objective or project will

Classification of Internal Audit Activities

Auditing Activities	Descriptions
Financial Auditing	The review and testing of the reliability and integrity of financial information and the systems that deliver this information. It includes work done in support of the independent, external auditors.
Operational Auditing	A review of the economy, efficiency and effectiveness of operations. Sometimes includes a broad review and evaluation of management performance with respect to the achievement of corporate goals.
Fraud Auditing	An audit specifically targeting irregularities, their magnitude, and rate of their occurrence.
Compliance Auditing	The review and testing of the organization's compliance with statutory, regulatory, and internal policy requirements.
Computer Auditing	The review and testing of the computer systems that process financial and non-financial information to assure the integrity of this information.
Internal Consulting	This category includes non-audit activities. These are often one-time assignments and have been traditionally referred to as "special projects."

most often straddle more than one type of audit, and sometimes an audit begun in one area will lead to additional audit opportunities in another area. This is especially true for financial auditing. For example, compliance auditing is often associated with financial auditing, particularly those compliance audit activities with clear financial content and impact. Financial auditing activities are also frequently intermingled with EDP and systems audit activities because of the close relationship between computers and financial information.

Financial auditing can provide an opening for operational and fraud audit activities as well. For example, a review of accounts receivable aging, a standard financial auditing activity, provides information on the amounts of uncollectible accounts. How the company's deals with slow payments to increase positive cash flow is an operational audit question.

With respect to fraud auditing, the financial audit can highlight audit exceptions that may or may not be fraud related. For example, in a payroll audit, an audit exception may involve an incorrect overtime calculation. This may be a simple mechanical error or possibly a fraudulent claim for wages not earned.

Financial auditing, then, is important not only because of its contributions to external reporting, but also because it is often a component of other internal auditing activities.

Financial Auditing

Respondents to the survey were asked to indicate which specific financial audit activities they are currently involved with and which activities they will be involved with in the future. Chart 1 summarizes their answers for auditing activities that involve financial information designed primarily for external reporting. These activities include the type of work done by internal auditors under the AICPA's Statement on Auditing Standards (SAS) No. 9, "The Effect of an Internal Audit Function on the Scope of the Independent Auditor's Examination."

The results predict an increasing involvement by internal auditors with financial reporting in the following areas: evaluating the accuracy, reliability, and completeness of financial reports; determining the impact of changes in SEC regulations and accounting rules; and testing compliance with federal, state, and foreign tax codes.

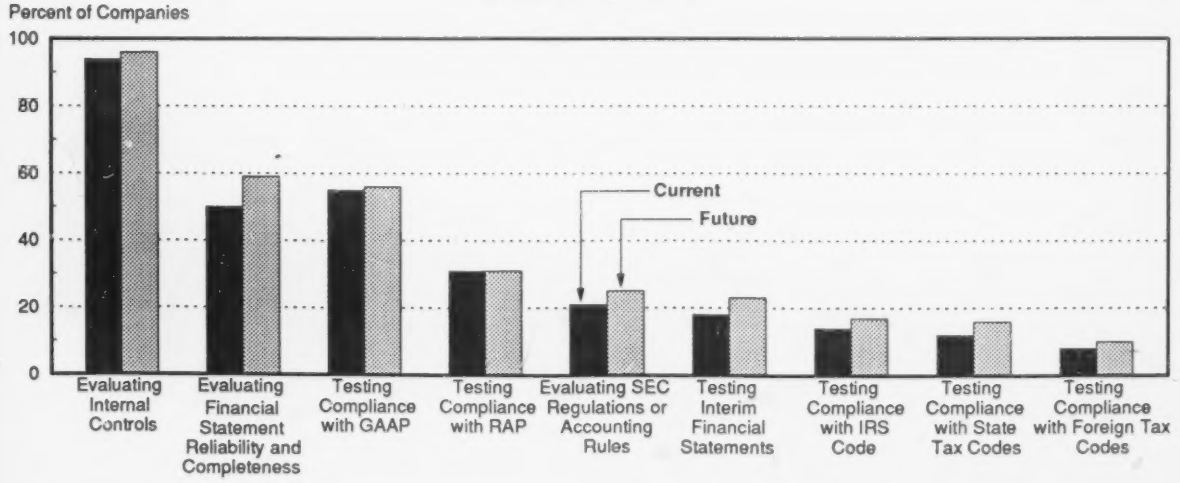
The increased involvement with accounting rules follows a period in which the FASB has issued a number of difficult and controversial new standards of financial reporting. During the late 1980's the corporate community has been almost overwhelmed by new accounting rules, including the FASB's statements on accounting for income taxes and the statement on cash flows. Other FASB projects that will affect companies in the near future include accounting for other post-employment benefits, financial instruments, and consolidations. The increased involvement by internal auditors in these standards will offer their companies the advantage of enhanced accounting control. At the same time, auditors will be challenged to develop a clear understanding of the standards and their significance.

Another area of increased involvement by internal auditors will be testing the accuracy and reliability of interim/quarterly financial results reported externally. This activity relates to one of the recommendations of the Treadway Commission report, which is discussed in Chapter 6. The SEC has also proposed increased external auditor involvement in the review of interim financial disclosures contained in Form 10-Q. The initial response from industry on this proposal has been mixed. However, if implemented the SEC proposal will create another opportunity for internal auditors to support the work of the independent auditors.

Chart 1

Financial Auditing Activities Conducted Regularly

N = 370 Companies



New tax rules such as the Corporate Alternative Minimum Tax, which for the first time links profit reported for financial statement purposes with taxable income on the tax return, have affected financial reporting, as well as operating business decisions, for many corporations. Tax rules, and the complex interactions between tax jurisdictions, present a serious challenge that can be mitigated through careful planning. It is expected that internal auditors will be involved in testing compliance with these varied rules to ensure that they are being followed, that planning opportunities are not missed, and that appropriate tax avoidance strategies are implemented.

Financial Auditing and the New Auditing Standards

The internal auditor's involvement with external auditors will also be influenced by a series of new auditing standards recently issued by the American Institute of Certified Public Accountants (AICPA). These standards provide additional guidance for the behavior of the external auditors in their review of corporate financial statements and management representations. The new standards were designed to help the user community better understand the responsibilities of independent auditors and their attestation associated with published financial statements.

Two of the new standards, SAS Nos. 53 and 55, are of particular interest to internal audit units that are involved with the independent auditors in the annual audit of corporate financial statements. One advantage is that they will enable the external and internal auditors to plan and coordinate their responsibilities better. In these standards, the AICPA has attributed a very positive value to the working relationship between audit organizations.

SAS No. 53, "The Auditor's Responsibility to Detect and Report Errors and Irregularities," states that the external auditor must "assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement" and "design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements." The external auditor is required to report irregularities to the audit committee or to someone outside the company, where appropriate. If the report is not heeded, the external auditor must issue a qualified or adverse opinion or disclaim an opinion. In the design and planning phase of the control risk assessment, the internal auditor—often the in-house control expert—can proyide the external auditor with insight into the control environment.

SAS No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," broadens the external auditor's responsibility and adds guidance for considering the internal control structure when planning and performing an audit. Again, the internal audit staff can contribute to the external audit if it helps the external auditors to understand and evaluate the company's internal controls. A summary of the other new auditing standards will be found in Appendix 1.

Relationships with External Auditors

The new auditing standards build on the relationship between the internal and external auditors that was already established by SAS No. 9, "The Effect of an Internal Audit Function and the Scope of the Independent Auditor's Examination."

How do chief internal auditors evaluate their working relationship with the external auditors under SAS No. 9? Most respondents described their relationship as either "very satisfactory" (46 percent) or "satisfactory" (41 percent). Only 3 percent found their relationship to be unsatisfactory, and 10 percent felt neutral on this question. Most respondents' views are reflected by the following comment: "We have a joint, very integrated audit program; and we work together although we've kept an arm's-length relationship."

Such a relationship fosters a healthy competition between the two audit groups. The corporation and its stakeholders are the beneficiaries of this relationship. Nevertheless, there are some areas of concern, as indicated by these views:

- "I feel that I am in competition with them, but I can deliver better service." (paper products producer)
- "We are emphasizing taking greater control over the pieces of audit work done in support of the external auditor's year-end audit. No longer will the internal auditor be allowed to simply do the 'grunt' work. To be most effective, a team approach should be developed. Internal audit is no longer satisfied to be the junior partner." (diversified manufacturer)
- "The external auditors do not understand what we do. They are too balance sheet, 'tick and tie' oriented." (diversified mining company)
- "Generally, outside auditors perceive internal auditors as inferior professionals, and this attitude affects our staff auditors. Our internal auditors have little respect for outside audit personnel. This affects productivity and effectiveness of work done." (chemical producer)

Some chief internal auditors expressed concern about SAS No. 9 and the need to revise this standard. This concern is captured by the following comment made by the chief internal auditor of a tire and rubber company: "The AICPA's Statement No. 9 on auditing standards criteria is too limiting and not fully in tune with current capabilities of internal audit."

At the time this report went to press, the AICPA's Auditing Standards Board (ASB) was in the process of drafting a new statement to replace Statement No. 9.[1] This new state-

[1]Recently, the 21-member Auditing Standards Board (ASB) has been reorganized, in accordance with a Treadway Commission recommendation, to include accountants not in public practice. Two ASB members are from outside the external audit community, including an academic and the U.S. General Accounting Office representative. Additionally, a seven-member oversight group, the Planning Committee of the ASB , has been appointed. This governing group will help formulate the agenda for the ASB and monitor its activities. There are three accountants not in public practice on this committee along with four ASB members, including the ASB chairman.

ment would permit external auditors to rely to a greater extent on the work of the internal auditors. It would not limit the internal auditor's involvement to routine work and to work that involves a minimum exercise of judgement, as did SAS No. 9. Independent auditors would still review the quality and independence of the internal audit staff. And, they would remain fully responsible for their attest function associated with published financial statements.

It has been argued that the use of internal audit staff to support the external audit can result in significant cost savings and operating efficiencies, especially in reducing the overall audit fee.[2] One study has shown that increases in the use of internal audit staffs have resulted in average savings of more than 15 percent in the external audit fee.[3]

A statement in an internal corporate document of a diversified aerospace manufacturer reflects management's desire to secure full audit coverage at minimum cost: "The objectives of internal auditors are different from those of our external auditors. However, certain audit work done by the two groups is similar in nature or purpose. Therefore, internal audit activities will be coordinated with the company's external auditors to ensure that optimum audit coverage is obtained at minimum cost throughout the corporation."

Clarifying Audit Roles

To clarify the respective roles of the internal and external auditors, some companies distribute information that explicitly defines these roles to their managers. This practice has the added benefit of providing a context within which to define the role of the internal audit group. Managers can then see more clearly the various activities performed by internal auditing and how this function contributes to the well-being of the corporation.

The box on this page contains excerpts from a pamphlet prepared by a pharmaceutical manufacturer for business unit managers. The pamphlet explains the internal auditors' roles, as well as how that role complements the work by the external auditors.

Operational Auditing

The objective of an operational audit is to derive recommendations that will add value to and enhance profitability of the business entity. Some internal audit departments formally quantify benefits derived from their operational auditing work by issuing periodic reports on cost savings and operating efficiencies that have resulted from internal audit recommendations. Those companies that allocate the cost of internal audit services to business units are more likely to quantify benefits in this way. (See pp. 20-21 for a discussion of the allocation issue.)

Operating managers may not always understand the purpose of operational auditing, and their misperceptions, if not corrected, can interfere with the implementation of the audit recommendations. A seemingly self-contradictory comment from the chief internal auditor of a money center bank highlights the importance of understanding operating management perceptions about internal auditors: "We don't do operational auditing. It's not a word that is appreciated. People are sensitive and don't like to have their operations reviewed, particularly by internal auditors. But having said that, I must add that every audit we do is operational."

Sometimes the current perceptions of internal auditing are colored by some less-than-positive past experiences. Negative attitudes can be turned around through improved internal communication about the role of internal audit and its responsibilities. Several companies have designed brochures for the non-financial staff to explain the purpose of the oper-

Roles of Internal and External Auditors

Internal Auditor	External Auditor
An employee of the company	An independent contractor
Serves the board of directors and management of the company	Serves the board of directors, shareholders, and the third parties who need reliable financial information
Selectively audits operations and controls in the company for effectiveness, efficiency, and reliability	Audits financial statements in accordance with generally accepted auditing standards. Reviews financial operations and internal controls to determine the scope of examination and the reliability of financial data
Is directly concerned with the prevention and detection of fraud/embezzlement in any form or extent in any activity in the company	Is incidentally concerned with the prevention and detection of fraud/embezzlement in general, but is directly concerned with financial statements that may be materially affected
Is independent of the audited activities, but is ready to respond to the needs and requests of all elements of the company's management	Is independent of management and the board of directors of the company, both in fact and in mental attitude
Audits activities continuously	Selectively audits financial statements at least once a year

[2] A study conducted by Wanda Wallace concludes that internal audit assistance to the company's outside auditor can result in material net savings. ("Internal Auditors Can Cut Outside CPA Costs," *Harvard Business Review*, March-April 1984, pp. 16-20.)

[3] Terry J. Engle and Gerald H. Lander, "Internal Auditing Activities of the Fortune 500—An Empirical Study," presented at the 1987 Annual meeting of the American Accounting Association.

ational audit. They have found that doing this strengthens the working relationships with others in the organization.

The Burndy Company provides the following definition of operational auditing in its corporate practices manual. The intent is to improve understanding of potentially sensitive audit activities and thereby foster a spirit of cooperation between audit and operations: "Operational auditing is designed to assist management by alerting it to a breakdown or weakness in controls, isolating areas for cost reduction, recommending operating improvements and by pointing out areas where the implementation of functional responsibility has faltered. It carries with it the responsibility to discover and inform management of operating problems and assist in their solution by recommending realistic courses of action."

Operational Audit Activities

The frequency with which the internal audit staff is involved with specific operational audit areas, now and in the future, is summarized in Chart 2. As this chart shows, respondents anticipate that after they will be more involved in every phase of operational audit activities in the future. This prospect is probably a result of management's desire to eliminate waste and improve efficiency and, in some companies, of positive experiences with internal auditors in previous operational audits.

Respondents stressed that follow-up is an important element in this type of review. They suggested that after recommendations are made and discussed with operating management, a schedule of implementation should be agreed upon. The internal auditor will then periodically review progress toward implementation of the recommendations and achievement of the resultant economies.

Study contributors listed other areas of operational audit responsibility, including: treasury function audits, human resource audits, health claims audits, product liability audits, review of the validity and effectiveness of business unit, product, and manager performance indicators, cost reduction studies, and sales promotion and advertising audits.

Fraud Auditing

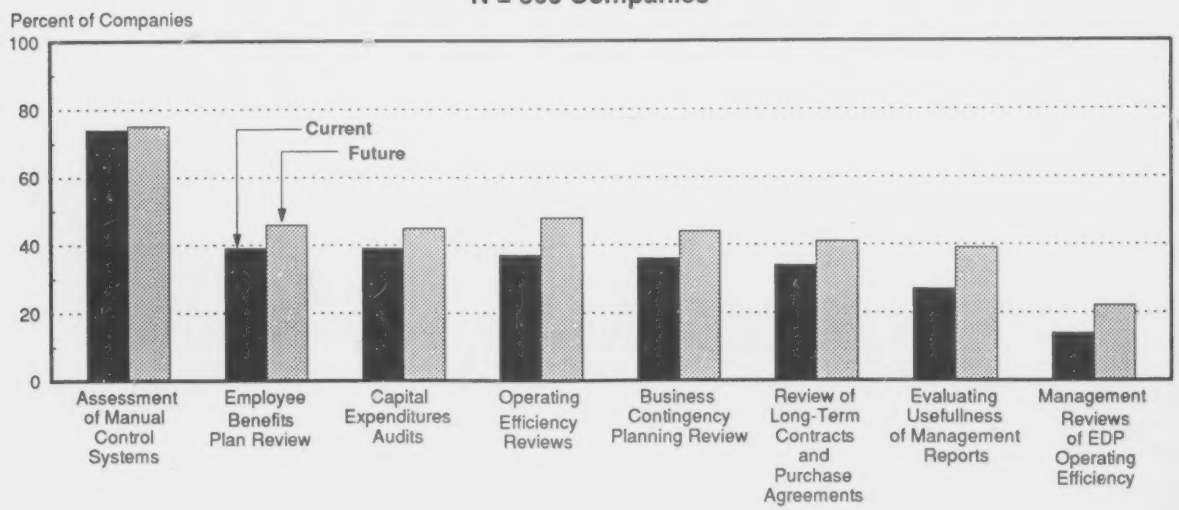
Fraud auditing has existed for some time in certain industries, such as insurance and banking. More recently, the broader corporate community has become more concerned about fraud by employees, former employees, and outsiders. Representative John Dingell (D. Michigan), chairman of the House Energy and Commerce Committee and its Subcommittee on Oversight and Investigation, has faulted auditors for not identifying the "red flags" that indicate potentially fraudulent activity. To address the issue of irregularities, greater interest has been shown in the prevention and early detection of fraudulent practices. This interest has resulted in increased emphasis on fraud auditing by the internal audit staff.

In today's environment, fraud includes a range of behaviors. For example, "cooking the books" is a manipulation of internal reports to give the appearance of improved operating performance. Other frauds are a function of modern computer systems. "Viruses" and "logic bombs" planted deep inside computer operating systems by disgruntled employees or outside "hackers" pose a real threat to the integrity of important financial systems. (Related controls and exposures in the systems environment will be discussed on pages 6-8.)

Chart 2

Operational Auditing Activities Conducted Regularly in Companies

N = 365 Companies



A specific type of fraud audit deals with illegal or questionable payments. Associated with the Foreign Corrupt Practices Act of 1977, this type of review is undertaken by almost all companies represented in the survey.

Many audits are prompted because operating managers suspect or detect fraud. The internal audit staff then conducts an audit designed to detect fraudulent activity and related behavior. Such an audit is commonly done in secrecy, with very few managers aware that it is actually taking place.

Almost one-third of the respondents currently audit for fraud regularly. Sixty percent are involved in this activity occasionally and seven percent never audit for fraud. In the future, over 40 percent expect to audit fraud on a regular basis.

Compliance Auditing

As noted in the box on page 1, compliance auditing involves both financial and nonfinancial rules, policies, and guidelines. Chart 3 summarizes primarily nonfinancial compliance audit activities in which respondents are or will be involved.

In 1987, Heidrick and Struggles, an executive recruiting firm, reported that 91 percent of the thousand largest U.S. companies had a code of conduct to assure that management follows ethical business practices.[4] Almost two thirds of the companies surveyed employ the internal audit staff to review compliance with these codes on a regular basis. Most internal auditors also regularly ascertain that other nonfinancial company policies are followed. These include policies related to travel, confidentiality, and personnel matters. Just under half the respondents regularly check compliance with laws and regulations. Internal auditors are expected to become slightly more involved with these types of compliance audit activities then they are now.

[4] "Chief Executive Officer Survey," Heidrick and Struggles, Chicago, IL, 1987, p. 16.

Computer Auditing

Auditing of computers and computer systems have emerged as key components of both financial and operational audit functions, and many internal consulting assignments as well. Although the control objectives are the same in traditional manual systems as in a computerized system, the challenges and opportunities in computer auditing are more dynamic.

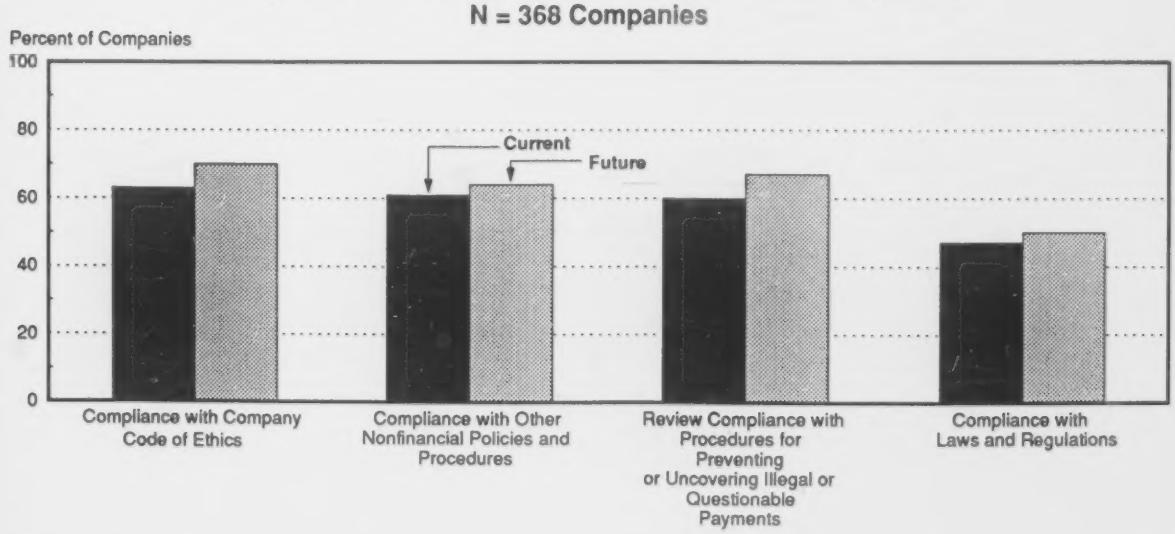
When computers first appeared in corporations, they were applied to financial tasks such as payroll, accounts receivable, accounts payable, and inventories. Many of these accounting-related applications were identified according to input activities, processing activities, and output activities. Controls were established for them. Those internal auditors who were initially unprepared for this move from the manual to the automated environment chose to "audit around the computer." The logic of this approach was that if auditors could determine that input data and output were correct, then the processing must be correct, too.

As auditors became better acquainted with computers, they divided their EDP audit programs into three categories: (1) programs to audit and to test input controls, (2) programs to audit and to test processing controls, and (3) programs to audit and to test output controls. This division followed the approach taken by most public accounting EDP audit professionals.

Chart 3

Compliance Auditing Activities Conducted Regularly

N = 368 Companies



Another common type of EDP audit in the 1970s was the audit of the data processing center. The emphasis was on auditing the physical controls, such as data center site security, and auditing the environmental controls, such as back-up systems and controls designed for temperature and humidity.

During the 1980s emphasis shifted to auditing in an online, real time environment as more and more businesses automated their financial, administrative, and manufacturing functions. Though the basic control objectives for these functions have not changed significantly, this automation has created the need for new types of controls.

Because the risks have increased for the activities that occur during processing, auditors must now perform audit procedures to test the controls while the data are being processed. New computer audit tools and techniques have been developed and other traditional techniques improved to meet the demands resulting from these exposures.

Controls over distributed, local area network, and standalone micro-computer systems have also attracted attention. These systems' characteristic user-friendliness, power, and connectivity have resulted in new exposures. Today computer power has been decentralized and put into the hands of more individuals than ever before, sometimes at remote locations. Powerful desktops, laptop computers and their common software packages were generally not designed with control issues in mind.

Systems Audit Activities

As Chart 4 shows, all areas of EDP and systems auditing will receive more attention in the future. Among the activities of greatest concern will be the evaluation of telecommunications controls. This will become a regular activity for 50 percent of the companies surveyed and represents an increase of more than 50 percent from the present incidence of regular involvement.

The corporate telecommunications function is a relatively new one and includes both voice and data communications. The audit and control issues involved include access control software, protocol data integrity, encryption, network management software, and controls over PBXs, local area networks, transmission facilities, and terminal hardware. The first step in identifying exposure in this area is often a risk or vulnerability assessment tailored to the needs of a specific company.

Internal auditors also expect to increase their reviews and assessments of existing business applications systems, and to participate more in improving these systems. These two activities are linked. First, a review and assessment must be made for a specific application. After this review is complete, the internal auditor may provide advice on redesigning the application to improve its functionality, control, and utility. Although these activities require the internal auditors to work closely with operating management, both the appearance of and reality of independence can and must be maintained. This can be accomplished by focusing on the advisory role and avoiding "hands-on" internal auditor involvement in implementing the recommendations.

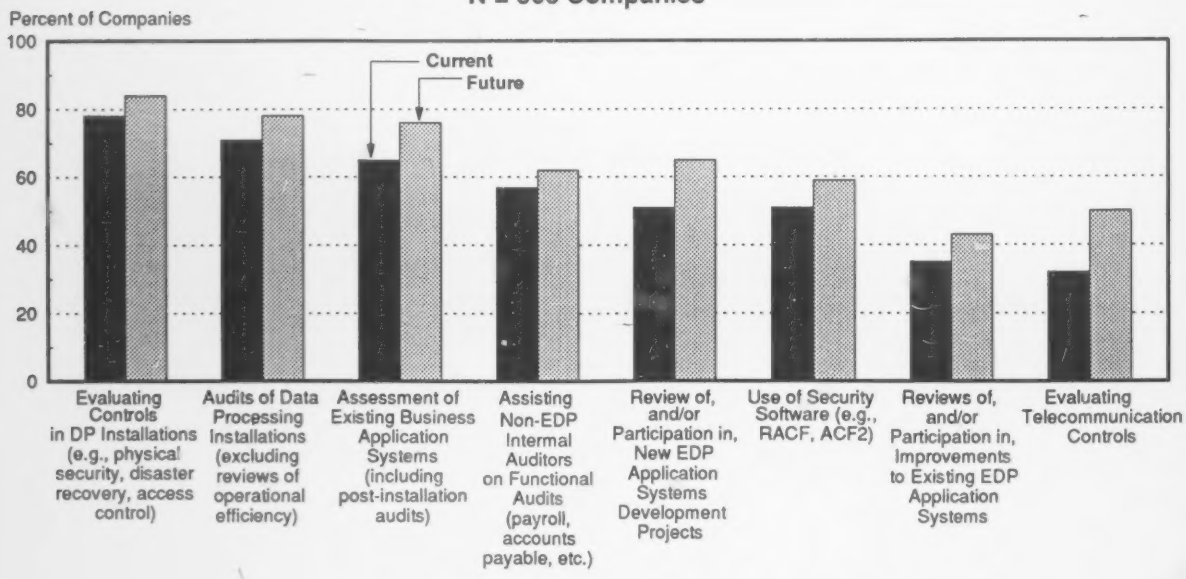
Survey respondents reported additional EDP and systems audit areas in which they are involved:

- Audits of personal (micro) computers and local area networks

Chart 4

EDP and Systems Audit Activities Conducted Regularly

N = 363 Companies


Percent of Companies
100
80
60
40
20
0
Current
Future
Evaluating Controls in DP Installations (e.g., physical security, disaster recovery, access control)
Audits of Data Processing Installations (excluding reviews of operational efficiency)
Assessment of Existing Business Application Systems (including post-installation audits)
Assisting Non-EDP Internal Auditors on Functional Audits (payroll, accounts payable, etc.)
Review of, and/or Participation in, New EDP Application Systems Development Projects
Use of Security Software (e.g., RACF, ACF2)
Reviews of, and/or Participation in, Improvements to Existing EDP Application Systems
Evaluating Telecommunication Controls

- Audits of program libraries and media retention systems
- Audits of software acquisitions
- Disaster recovery reviews
- Data base management reviews
- Audits of computer-aided design and manufacturing applications
- Hardware utilization reviews
- Reviews of Just-In-Time and flexible manufacturing systems
- Computer virus audits: These audits of operating systems and other software look for viruses that may be buried deep inside programs. In many cases they lie dormant until activated by a specific event. Such viruses can cause substantial damage and material cost.
- Audits of office technology: These audits deal with such questions as the efficiency of new equipment and training. They also consider such questions as whether new controls are needed as a result of installing fax machines that serve several departments.
- Post-implementation reviews: After a system is installed and operating, these reviews ascertain whether the planned costs, timetable, efficiencies, and economics have actually been realized. This is done to control current operations, as well as to gain insight into future planning opportunities.
- "Information asset" security: Although not considered an asset under generally accepted accounting principles, these assets may be of significant and even primary value to a business entity. An example is an on-line customer data base to a catalogue merchandiser.

With the proliferation of more convenient and easy-to-use products for desktop application, the need for related auditing will also increase. For example, control is needed for "read only" memory devices such as the optical disk that can store encyclopedic quantities of data; for backup of valuable programs and data contained in stand-alone desktop systems; and for local area networks (LAN). (LAN controls include those over purchasing, documentation, and security.)

Some study participants expressed concern over computer and systems control:

- "We must be involved in systems development task forces to ensure that controls are built in up front." (pharmaceutical manufacturer)
- "We play a very heavy role in systems. We have had to cancel or delay projects because controls were not in place." (telecommunications company)
- "We are involved with access controls and data security in large mainframe installations. On-going vigilance is necessary due to increasing activities by 'hackers.'" (money center bank)

The expected growth in the various facets of systems and EDP auditing will create pressure on the internal audit staff to acquire new knowledge and skills. Those interviewed suggested that the knowledge and skills will be acquired through in-house training and through attracting experienced staff who specialize in the field. According to some, however, the latter may be difficult because the most capable individuals will be in great demand. The new generation of college graduates may help solve this problem.

Organizational Considerations

How does EDP auditing fit into the overall audit function? Of the companies responding to the survey, 64 percent have a discrete EDP audit function. The 36 percent that do not are nevertheless involved in EDP auditing and controls, as evidenced by their responses to other questions. For some companies, EDP audit skills and techniques have spread to the nonspecialist internal audit staff, thus obviating the need for a distinct EDP audit group. Says the chief internal auditor of a petroleum product company: "We don't distinguish between EDP and Internal Auditing staffs. All internal audit staff must perform all audit functions."

The spread of EDP skills and techniques is due partially to improved education. For example, one manufacturing firm has found that recent college accounting graduates approached the use of computer (audit) applications with enthusiasm.[5] In fact, some respondents commented that they expect to see a diminution in the EDP audit specialization as the regular internal audit staff becomes more adept at systems auditing and in using computer assisted auditing techniques (CAATs.)

The existence of a discrete EDP audit function varies considerably by industry group, as shown in Chart 5. Financial services, utilities, and other service companies are most likely to have a discrete EDP function, perhaps because they are information-intensive and heavily dependent on the effective operation of EDP systems and also because of increased government regulations in their industries.

Company size also has a decided effect on the existence of a separate internal EDP audit function (see Chart 6). Not surprisingly, the larger the corporate entity, the more likely it is to have a distinct EDP audit group. It is generally more feasible for larger audit staffs and those involved with the audit of government contracts to develop specialized groups like EDP audit. Smaller internal audit staffs usually do not have the personnel or the funding to support specialization.

A related question that may affect internal auditing is how information systems fit into the overall corporate structure. Many companies have created the vice presidential-level position of chief information officer (CIO) to focus executive attention on this area. This position, which in larger companies usually reports to the Chief Executive Officer (CEO) or Chief Operating Officer (COO), has been created in some

[5]Jonathan B. Schiff, "Toward the Paperless Audit," *Internal Auditor,* June 1989, p. 32.

Chart 5

Discrete EDP Function By Industry

N = 367 Companies

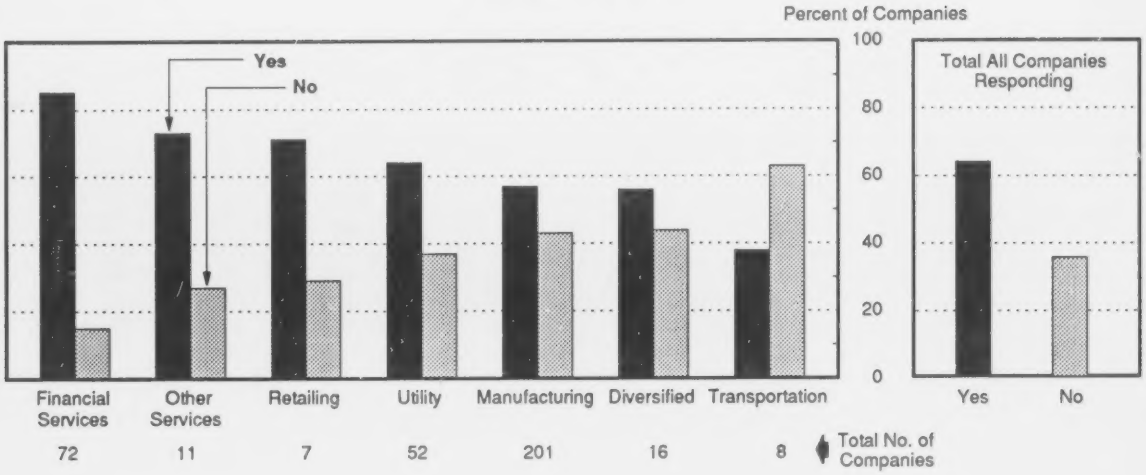
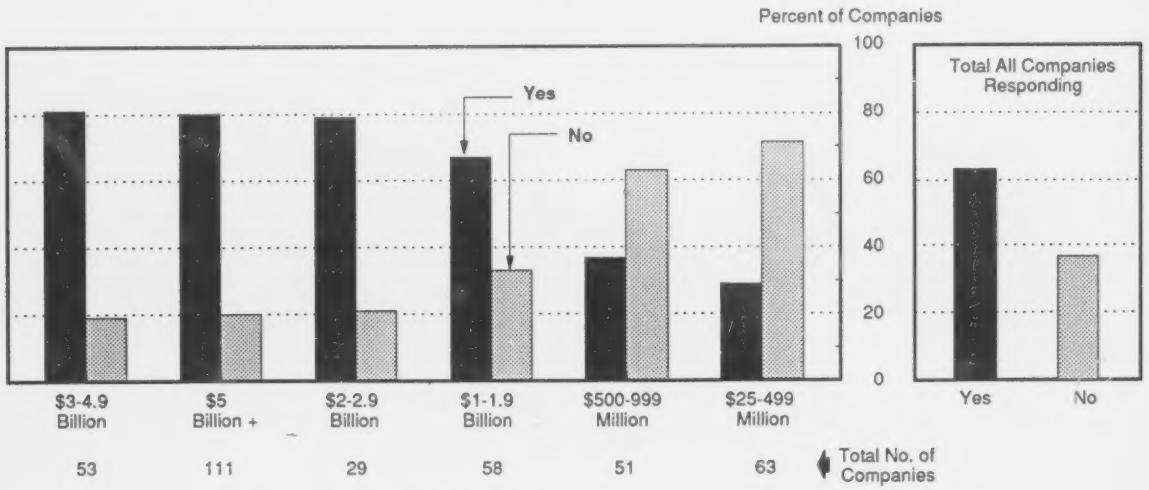


Chart 6

Discrete EDP Function By Company Size

N = 365 Companies



companies to improve control over computer resources and to better apply these resources to the achievement of corporate goals. In the absence of a corporate-wide strategy to manage computer resources, many companies have experienced several negative effects: incompatible software/hardware; difficulty in interacting with a multitude of vendors; and reduced internal transferability of employees.

The CIO position can improve the control structure through efficient management of corporate resources. However, several chief internal auditors mentioned that the position can result in a new internal control problem. Internal audit most often reports to the chief financial officer (CFO)—typically a vice presidential position. The internal auditors require the cooperation of corporate management

in order to accomplish their objectives. They may not receive the same degree of cooperation from an information systems department headed by a CIO, and conflicts can arise as this executive establishes his or her authority and responsibility.[6]

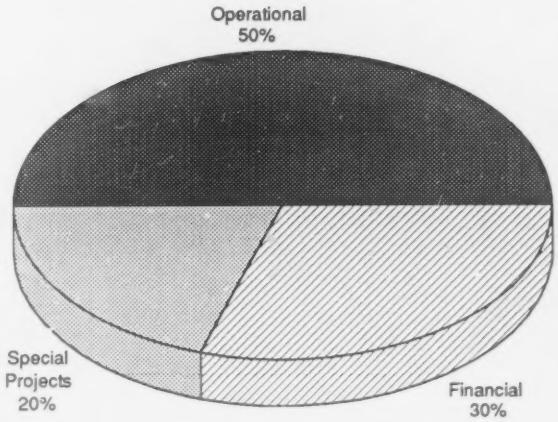
EDP Auditing Function Time Division

EDP audit resources support the objectives of both financial auditing and operational auditing, and are also routinely applied to internal consulting undertaken by the internal audit department. Chart 7 illustrates how EDP audit resources are allocated among these three activities.

This resource allocation implies that the EDP audit staff must master several technical competencies if they are to be effective. This presents a serious recruitment, development, and training challenge. However, opportunity lies in the synergy such a multi-faceted staff creates for the internal audit department and in the benefits that will accrue to the entire company.

Chart 7

Allocation of EDP Audit Resources to Internal Audit Activities



Computer Assisted Auditing Techniques

Computer assisted auditing techniques (CAATs) are being used by internal auditors to enhance many internal audit activities. CAATs began as applications within the mainframe environment over 15 years ago and were used by external as well as internal auditors. More recently, the widespread use of desk-top and portable personal computers have created new opportunities for internal auditors to use the computer as a tool in their work. Yet these opportunities are far from fully exploited. According to the chief internal auditor of a finance subsidiary, "The relatively low utilization of CAATs on a consistent basis. . . is an example of the internal audit function's reluctance to employ tools other than pencil and paper." And, even though most internal auditors use personal computers, in the view of another chief internal auditor, "Most, if not all, of the emphasis has been on how to use the computer to control, extract, and manage data, rather than on using computers to improve the efficiency of the audit staff in their primary activities."[7]

More recently several companies have been moving toward the "paperless audit," which involves a comprehensive use of computer technology in all phases of internal audit activities.[8] Directors of internal audit are beginning to realize that they have "taken advantage of only a few of the computer's potential functions and capabilities."[9] The vanguard leading the way toward the paperless audit includes companies involved in retail, financial services, and manufacturing.

Although the changes and investment involved in these directions represent a significant challenge to the internal audit function, the resultant benefits clearly have outweighed the costs involved. One respondent raised a question: "How effective can internal audit be in 1990, without utilizing CAATs on a total and consistent basis?"

Chart 8 summarizes internal auditors' current and future involvement in CAAT activities. The chart reveals that there will be dramatic increases in the use of CAATs for internal auditing, which will change the way internal auditors work and think. They will be able to devote more attention to the planning and analytic aspects of their assignments because their involvement in procedural and administrative elements will be reduced. This emerging technology will also allow internal auditors to increase the number of items tested from a sample to virtually 100 percent. They will then be much more likely to identify important audit exceptions. Successful implementation of CAATs will thus greatly improve the work performed by the internal auditing staff.

Internal Consulting

An increasing number of internal audit units are going beyond the realm of traditional auditing activities to include ad-hoc or special projects, sometimes referred to as internal consulting projects. This change seems to reflect management's increasing respect for internal auditors. Internal consulting assignments tend to focus on organizational goals and objectives; the deployment of resources to accomplish goals and objectives; and the reliability of information to monitor progress.

A summary of internal consulting assignments reported by respondents is shown in Chart 9. Involvement in each activity "regularly" or "occasionally" represents a material amount of internal audit's effort and resources. Expectations are that all these activities will increase in the future.

[6] John G. Burch, "CIO: Indian or Chief," *Information Strategy*, Winter, 1989, p. 5.
[7] Joseph E. Simms, "Automated Working Papers," *The Internal Auditor*, December, 1983, p. 32.
[8] Jonathan B. Schiff, "Toward the Paperless Audit," *The Internal Auditor*, June, 1989, pp. 30-35.
[9] Ibid, p. 31.

Chart 8

Regular Use of CAATs

N = 357 Companies

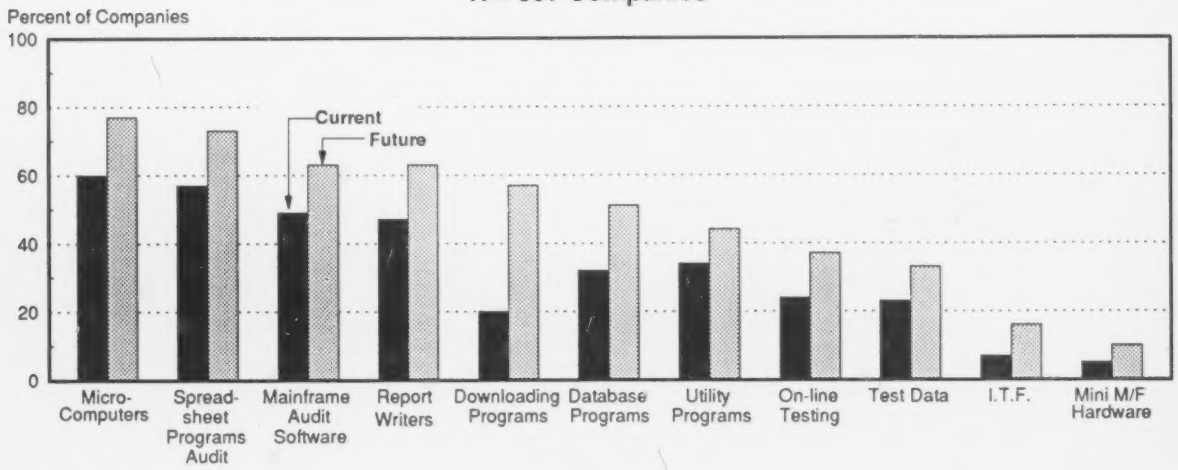
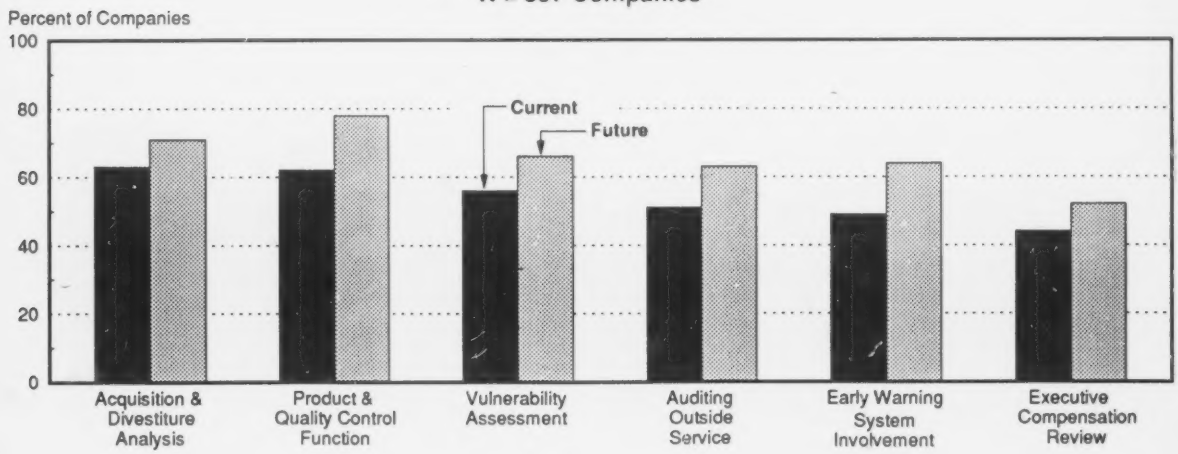


Chart 9

Internal Consulting Activities Conducted Regularly or Occasionally by Internal Audit Unit

N = 357 Companies



Of those activities listed, vulnerability assessment, early warning systems and quality control are relatively new areas for many internal audit departments. Vulnerability assessment began in the defense industry, but it is becoming more common in the nondefense economic sector as well. It entails a review of potential risk associated with products or services that represent unusual legal, financial, or public image exposure to the organization if an unexpected, although possible debacle occurs. For example, a public utility may be interested in a vulnerability assessment for a nuclear plant that is under construction.

Usually automated, early warning systems give management advance alert about a potential operating or financial problem. For example, an early warning system can draw management's attention to an unusual growth in inventory over a short period at a specific location. Such a system can also draw attention to unexpected levels of exception reports.

Quality programs abound in today's corporate environment. They are sometimes prompted by a desire to enhance competitive advantage and sometimes initiated as a result of a key customer's persuasion. However, a recent survey reported that more than 50 percent of companies have yet

to realize full benefit from quality programs, while 35 percent said they achieved their goals.[10] Internal auditors can help provide an objective measurement of progress toward achieving results from quality programs.

The review of outside vendor service is one of the more productive auditing efforts, as measured by dollar recovery. For example, a large retailer with many suburban mall locations periodically reviews its mall maintenance service costs against the services actually performed. It is not uncommon for this type of audit to lead to credits from the provider of the service.

Respondents also identified a number of additional internal consulting activities they perform:

- Ad-hoc product line financial analysis
- "Due diligence" assignments
- Post-capital acquisition reviews (a review conducted to ascertain whether planned targets have been met with respect to a capital investment)
- Review of cost management systems
- Loan loss reserve determination (banking)

Internal consulting assignments can be the result of suggestions from the audit committee members or from corporate and business unit managers, or they can be initiated by internal audit. Here are two pertinent comments about such work:

- "Management has been asking us to do certain work, such as systems design, that I consider to be its role. In other words, it wants 'absolution' before the fact—it wants to be able to say that the internal auditors have blessed it and the direction in which it is going." (telecommunications company)

- "We spend about 20 to 25 percent of our resources on consulting. Now that we've gone private, we are being asked to do more of this type of work, and I am very careful about what sort of consulting jobs we take on. I make sure that we've got the right people with the right backgrounds." (apparel manufacturer)

The institutionalizing of these internal consulting activities is characterized by this statement:

- "We've recently added a new code to our time sheets—'C-time-consulting'—because it is not associated with any particular or traditional audit activity." (diversified company)

The growth of consulting activities performed by internal auditors should add a new dimension of challenge and attractiveness when recruiting for the internal audit staff. This is due to the current popularity of consulting as a high-profile career and the opportunities these activities create for internal auditors.

[10] *Controllers Update*, National Association of Accountants, November, 1989, p. 32

Chapter 2

Reporting Relationships and Related Issues

Corporate internal audit reporting relationships are indicators of the authority, responsibility, visibility and stature of the function. The overall internal control structure can be strengthened through a reporting line to top management and/or to the audit committee. Such a reporting line increases the independence and thus the objectivity of the internal audit unit.

As Table 1 shows, three-fourths of the chief internal auditors responding to the survey report to either the CFO (48 percent), the CEO (17 percent), or the audit committee (10 percent). Fifteen percent report to the controller, the remainder report to another corporate officer.[1]

The significance of these reporting relationships becomes more apparent when the percentages are compared with those from earlier Conference Board studies. Table 2 makes this comparison and shows that as a group, chief internal auditors are reporting to higher organizational levels than in earlier years, and there is a decreased diversity of people to whom the chief internal auditors report, as indicated by the changes in the "others" column.

[1]Several study participants reported multiple reporting lines for the chief internal auditor. The most common were dual reporting lines to the CFO and the audit committee, and to the CEO and the audit committee.

This evolution of reporting relationships is in part attributable to the need for increased auditor involvement in a diverse set of operating and financial activities. Another contributing factor: As audit committees exercise greater initiative, they are more dependent on the internal audit function to assist them.

Internal Audit at the Business Unit Level

The internal audit function is generally considered to be a central corporate activity. Evidence of this is that although 96 percent of the companies represented in this study are organized into business units or similar subdivisions, fewer than a quarter supplement their corporate internal audit structure with divisional internal audit organizations. Certain industry groups reported a higher frequency of business unit internal audit groups. The industry breakdown of these organizational alternatives is shown in Table 3.

Sixty-nine percent of these divisional internal audit units report to divisional management, not to corporate internal audit. This reporting relationship is a source of concern to some study respondents who feel that it may compromise their independence and the effectiveness of the internal au-

Table 1: Chief Internal Auditor Current Primary Reporting Relationship Percent of Companies N=341 Companies

CFO	*CEO*	*Controller*	*Audit Committtee*	*CAO, Vice Chairman Ex. VP-Sr. VP*	*Treasurer*	*Chief Counsel*	*Total*
48	17	15	10	7	2	1	100%

Table 2: Evolution in Internal Auditor Reporting Relationships Percent of Companies

	Reporting Line of the Chief Internal Auditor					
Conference Board Internal Audit Report	*CFO*	*Controller*	*CEO*	*Audit Committee*	*Others*	*Totals*
1963	7	54	2	0	37	100%
1978	34	30	6	5	25	100%
Current	48	15	17	10	10	100%

Table 3: Internal Audit Organizations, Corporate and Business Unit Levels
N=363 Companies

Industry Groups	Corporate Only		Corporate Plus Business Unit	
	No. of Companies	%	No. of Companies	%
Manufacturing	151	77	46	23
Financial Services	52	72	20	28
Utilities	44	85	8	15
Transportation	8	100	0	0
Retail	5	71	2	29
Other Services	9	82	2	18
Diversified	10	63	6	38
Totals	279	77%	84	23%

dit function. These respondents would prefer divisional chief internal auditors to report directly to them.[2]

Top Management Support

How well does top management support the internal audit function? More than 90 percent of the chief internal auditors stated that they are satisfied with top management's support. These comments were typical:

- "Tone is set at the top. Support from top management is outstanding." (information systems manufacturer)
- "We have full support of top management—they are very 'pro' internal audit. No restriction is placed on audit activities or scope." (transportation company)
- "When support was needed on sensitive and tough issues—top management responded very well!" (diversified chemical manufacturer)

In contrast, here are comments by three chief internal auditors who believe that they are not sufficiently supported by top management:

- "Top management does not really support internal audit. There is no positive push to comply with internal audit recommendations." (public utility)
- "Adequate resources have not been provided for the audit department to achieve a minimal level of performance." (defense contractor)
- "There is an insufficient understanding of internal audit's contribution to efficiency, effectiveness, and ultimately to financial results." (printing and publishing company)

[2]This point is an issue for the controllership function as well as for the internal audit function in decentralized corporations. Companies like ITT have been innovative in setting reporting relationships so that the business unit controller reports to the corporate controller, rather than business unit operating management. (Raymond Alleman, "Controllership at ITT," *Management Accounting*, May 1985, pp. 24-30.) In ITT's view, this reporting relationship enhances the quality of internal control for the organization.

Relationship with the Audit Committee

The oversight role of the audit committee of the board of directors is intended to enhance protection of stockholder and creditor interests.[3] The committee's effectiveness is of course directly linked to the activities of the internal audit function.

As noted earlier, 10 percent of chief internal auditors report primarily to the audit committee as compared with 5 percent in 1978 and none in 1963. But no matter what their primary reporting responsibility, today most chief internal auditors maintain a strong relationship with the audit committee.

Frequency of Meetings

Almost all chief internal auditors meet regularly in formal meetings with the committee, and many have informal, private meetings as well. In fact, a recent Conference Board study on audit committees reports that chief internal auditors have "become more involved with the audit committee by setting agendas and by acting as audit committee secretary."[4]

Table 4 shows the number of times chief internal auditors meet formally with their companies' audit committees. Meeting frequencies of two, three, and four times a year account for 81 percent of reported practices. Almost three out of five chief internal auditors have regular private meetings with the audit committee chairperson, and four out of five meet privately with the full audit committee.

Twenty-eight percent of the respondents believe their interactions with the audit committee will increase in the future. The reasons they give for this prospect include an increase in exposure, recommendations of the Treadway Commission, potential governmental regulation, desire to

[3]Appendix 5 contains the charters of several audit committees.
[4]Jeremy Bacon, *The Audit Committee: A Broader Mandate*, Report No. 914, The Conference Board, 1988, p. 20.

Table 4: Frequency of Chief Internal Auditor Meetings With the Audit Committee
N=347 Companies

No. of Meetings Per Year	Percent of Companies
One	7
Two	21
Three	28
Four	32
Five	7
Six or more	5
Total	100%

increase control over audit costs, change in business environment, fraud and insider trading, and crises and profound changes in the banking and financial services industries.

Meeting Agenda

Aside from a discussion of topics regularly covered in written reports to the audit committee, most respondents mentioned the following other significant topics that are covered when the audit committee and chief internal auditor meet:

- Treadway Commission Report recommendations
- Adequacy of the internal audit staff levels and training
- Barriers to the achievement of internal audit objectives
- Recent pronouncements of the FASB and the application of generally accepted accounting principles
- Computer systems security and disaster recovery plans
- Behavior of senior management with respect to corporate codes of conduct
- Conflicts of interest
- Fraud and serious violations of company policies
- Independent auditor fees and performance
- Relevant professional standards of the American Institute of Certified Public Accountants (AICPA) and of the Institute of Internal Auditors (IIA)
- Impairment of independence of internal auditors
- Quarterly and annual financial results
- Follow-up of previous audit recommendations

Some chief internal auditors reported other areas of interchange with the audit committee that are worth noting. Although they do not represent common practice, they do provide insight into the sensitivity and professionalism attributed to the internal audit group by the audit committee. These areas include litigation, executive time and expense reports, promoters' and consultants' fees, and charitable contributions. Finally, some topics are unique to certain companies and industry groups. For example, at banks, the Federal Reserve's capital adequacy requirements and asset quality are discussed and, at insurance companies, customer fraud.

Written reports

Nine out of ten chief internal auditors prepare written reports for the audit committee. Table 5 shows the incidence with which specific topics are included in such reports. The most regularly covered topics are internal financial controls, follow-up of internal audit recommendations, and administrative controls.

Table 5: Topics Commonly Covered in Written Reports to the Audit Committee N=320 Companies

	Percent of Responses		
Topics	*Regularly*	*Occasionally*	*Never*
Effectiveness of internal financial controls	84%	14%	2%
Implementation of results of internal audit recommendations	64	31	5
Effectiveness of administrative controls	62	32	6
Fraud or serious violations of company policy	49	45	6
Risks and uncertainties	48	42	10
Operating efficiency issues	33	49	18

Effectiveness of the Audit Committee

Almost 95 percent of respondents believe their audit committee is effective in its oversight role. These comments are typical:

- "Our audit committee is interested and effective. It is up to internal audit to provide the audit committee with more information to increase the committee's effectiveness." (public transit authority)
- "I serve as secretary of the audit committee and it is apparent from meetings that the committee is very insightful, curious, probing and effective." (mining and manufacturing company)

A few respondents were critical of their companies' audit committees. Some questioned whether the committees had sufficient authority and technical knowledge, and others wanted more active communication between the audit committee and internal audit. The chief internal auditor for a construction engineering firm summarized the situation in his company this way: "Since the audit committee does not get involved in our reports (i.e., they do not get our reports), I find it hard to believe that they are adequately informed."

The strong relationship between the internal auditors and the audit committees, and the enhanced reporting status of chief internal auditors revealed by the survey, suggest a growing recognition that the internal audit function is crucial to the short- and long-term health of the corporation.

Chapter 3

The Internal Audit Department—Staff Level, Budgets, and Cost Allocation

With the increasing responsibilities of internal audit departments, there is a growing need for adequate and qualified professional staff. One measure of staff, of course, is the number of internal auditors the department employs. The professional qualifications of those auditors—education, experience, and certification—is an equally important consideration. In fact, some firms have chosen to reduce the number of their internal audit staff in favor of fewer individuals with better qualifications.

Chapter 4 will discuss the findings of this study with regard to qualifications of the internal audit staff. This chapter will consider staffing in terms of the numbers of internal auditors in the *corporate* internal audit department a firm employs, and the related issues of budgets and whether corporate internal audit costs are allocated to business units.

Staffing Levels

Organizational style of a company, whether centralized or decentralized, is not a factor in the size of the corporate audit staff. Company size is an important influence on staff size, of course. So is the industry group to which a firm belongs. See Tables 6 and 7.

Table 6: Corporate Internal Audit Professional Staffing Levels (By Company Size) N=362 Companies

	Staff Size				
Company Size	*1-10*	*11-20*	*21-50*	*51-100*	*101+*
$25-499 Million	95%	3%	0%	2%	0%
$500-999 Million	82	16	2	0	0
$1-1.9 Billion	41	45	12	2	0
$2-2.9 Billion	10	31	59	0	0
$3-4.9 Billion	19	35	41	4	2
$5 Billion +	7	8	38	26	21
Total Companies	145	72	89	32	24
Total Percentage	40%	20%	25%	9%	7%

For the $3 billion and larger companies there is a wide range of staffing levels. For these firms, it appears that, like other corporate staff functions, there is no prescriptive staffing level based on company size. Rather, the staffing level is a function of such factors as the responsibilities a company assigns to its internal audit group, the use of computer-assisted auditing techniques, and the employment of college interns to meet seasonal or periodic increases in demand for internal audit services, and corporate culture.

How staff levels vary among industries is indicated in Table 7. The financial services group is the most heavily staffed with internal audit professionals in comparison with the other industry groups. This is partially due to the increasing sophistication of financial instruments, the increasing volume of transactions and the complexity of electronic systems that help manage them, and the intricate regulatory environment of the financial services industry.

Sufficient Staff?

Most chief internal auditors are satisfied with current staffing levels, although a significant minority—26 percent—are

Table 7: Corporate Internal Audit Professional Staffing Levels (By Industry Group) N=364 Companies

	Staff Size				
Industry Group	*1-10*	*11-20*	*21-50*	*51-100*	*101+*
Manufacturing	46%	21%	20%	8%	5%
Financial	17	16	33	14	20
Utility	40	27	25	8	0
Transportation	25	25	50	0	0
Retail	57	0	29	0	14
Other Services	27	55	18	0	0
Diversified	50	6	31	13	0
Total Companies	144	75	89	32	24
Total Percentages	39%	21%	24%	9%	7%

not. Typical comments by those who believe current staffing levels are inadequate:

- "Our full-scope audit plan indicates that we need an additional 20 internal auditors." (regional utility)
- "Mergers and acquisitions have made it difficult to establish the appropriate staffing level." (insurance company)
- "Based upon desired level of audit, with current number of systems and locations, we should have approximately 50 percent greater staff." (diversified metals and chemical producer)

There is considerable variability on this question for certain industry groups, particularly retailing, as indicated in Table 8.

Satisfaction with current staffing levels also varies by company size (see Table 9). About 85 percent of the $3 billion and larger companies are satisfied with present staffing levels. According to some of their chief internal auditors, the adequacy of staff size is attributable to the high perceived value of internal audit services and strong top management support. In contrast, only 56 percent of the smallest companies included in this study are satisfied.

Supplemental Staff—In-House Specialists

To supplement the regular internal auditing staff, almost one-fourth of the survey respondents occasionally turn to in-house specialists. They are most frequently employed in the transportation industry and by large companies.

The respondents were asked to describe the service provided by in-house specialist staff. The following are representative comments:

- "For oil and gas measurement, we use company chemists and chemical engineers."
- "Specialists are used in the areas of cash management and inventory management."
- "We use corporate level personnel and security staff."
- "We use computer support, communications, and legal specialists."
- "MIS staff are transferred to the internal audit department on a one-to-six month rotational assignment."

Supplemental Staff—Outside Consultants

Twenty-two percent of the survey respondents regularly supplement their internal audit staff by purchasing the services of outside management consultants. Often these consultants come from the company's independent accounting firm. Government compliance audits, EDP audits, construction audits, telecommunications audits, quality assurance reviews, and fraud auditing are some of the common areas for regular involvement by outside consultants.

Internal Audit Budgets

The relationship between a company's professional staff levels and budget size would seem to be clear—the more people employed, the bigger the budget. However, as suggested earlier, this relationship is clouded because of the staffing options. Some companies hire recent college graduates, while others opt for high-salaried individuals with advanced business degrees, professional certification, and considerable experience.

As one would expect, company size is an important determinant of the internal audit budget, as shown in Table 10. Yet within companies of a given size range, there is considerable variation in the resources budgeted for the internal audit function (see the $1 billion—$4.9 billion rows in Table 10). Additionally, geographical location of the inter-

Table 8: Satisfaction with Current Staffing Levels By Industry Groups N=365 Companies

Industry	*Satisfied*	*Not Satisfied*
Manufacturing	71%	29%
Financial Services	78	22
Utility	83	17
Transportation	75	25
Retail	43	57
Other	73	27
Diversified	81	19
Total	74%	26%

Table 9: Satisfaction with Current Staffing Levels By Company Size N=363 Companies

Company Size	*Satisfied*	*Not Satisfied*
$25-499 Million	56%	44%
$500-999 Million	68	32
$1-1.9 Billion	68	32
$2-2.9 Billion	72	28
$3-4.9 Billion	85	15
$5 Billion +	84	16
Total Companies	267	96
Total Percentages	74%	26%

nal audit unit and audit field sites will influence budgets. The variability in budgets for internal audit may also be attributable to the different scopes of internal audit work for companies that are of similar size, even for those companies in the same industry.

Budget allocated to the internal audit function also varies by industry group. Financial services and retailing have the most substantial budgets for internal audit activities while nonfinancial services, utilities, and manufacturing have the smallest budgets. Budgets for 1988 by industry group are presented in Table 11.

EDP Auditing-Staff Levels and Budgets

As Chapter 1 discussed, 64 percent of the companies responding to the survey have a discrete EDP audit function, in addition to the internal audit department. For these companies, staff size and budgets for the EDP audit group are important questions.

Of those companies with discrete EDP audit groups, financial service companies have the largest EDP audit staff, as shown in Table 12.[1] As noted earlier, this industry group also has the largest internal audit staff.

The reservation regarding the relationship between staffing levels and budgets for internal audit staff apply to EDP audit staff as well (i.e., companies might choose to hire fewer, better qualified people at higher salary levels). The annual budget for EDP audit varied directly with company size, as shown in Table 13. Within most company size groupings there seems to be a fairly consistent budget for this function except for the $1-1.9 billion and $5 billion plus size groups.

[1]This finding is consistent with results reported in the 1980 Conference Board study.

Table 10: 1988 Internal Audit Budget Levels* By Company Size
N=331 Companies

Company Size	*Under $400,000*	*$400,000-$799,999*	*$800,000-1,199,999*	*$1,200,000 1,799,999*	*$1,800,000 2,499,999*	*$2,500,000 4,999,999*	*$5,000,000+*
$25-499 million	84%	14%	2%	0	0	0	0
$500-999 million	57	36	7	0	0	0	0
$1-1.9 billion	7	42	26	15	8	0	2
$2-2.9 billion	0	4	30	30	26	10	0
$3-4.9 billion	4	10	14	28	26	14	4
$5 billion+	1	2	3	6	13	28	47

*These findings include the cost of EDP auditing

Table 11: 1988 Internal Audit Budget Levels* By Industry Groups
N=347 Companies

Industry Group	*Under $400,000*	*$400,000-799,999*	*$800,000-1,199,999*	*$1,200,000-1,799,999*	*$1,800,000-2,499,999*	*$2,500,000-4,999,999*	*$5,000,000+*
Manufacturing	24%	20%	11%	11%	10%	10%	15%
Financial	10	9	10	13	13	20	26
Utility	27	21	17	8	13	6	8
Transportation	14	14	14	29	14	14	0
Retail	14	43	0	0	0	29	14
Other	27	18	27	9	9	9	0
Diversified	27	7	0	20	20	7	20
Total Company	74	61	40	39	39	40	54
Total Percent	21%	18%	12%	11%	11%	12%	16%
							100%

*These figures include the cost of EDP auditing

Allocation of Internal Audit Costs to Business Units

The allocation of central corporate costs to business units has been a controversial issue. A summary of reasons to allocate or not to allocate internal audit costs appears in the box on this page, which makes apparent the complexity of the allocation decision.

The companies responding to the survey are almost evenly divided between those that allocate internal audit costs and those that do not. The breakdown of this information into industry groups summarized in Table 14 shows that manufacturers are more likely not to allocate, while financial service and utility companies tend to allocate these costs.

Corporate structure, whether centralized or decentralized, does not affect the corporate policy toward allocation of internal audit costs.

According to a number of respondents, a company's allocation policy is often a key factor in understanding the relationship between the internal audit department and other functional or operational groups. To encourage the acceptance of internal audit by operating units, some companies

Reasons for Allocating and Not Allocating Internal Audit Costs

Allocation objectives: To compute profit and asset valuation, to obtain a mutually agreeable price, and to motivate managers.[1]

Reasons for allocating:

a. Shared internal audit costs are recovered fairly.

b. Managers become sensitized to shared internal audit costs, which must be recovered.

c. The method of allocation fairly reflects each business unit's usage of internal audit services.

Reasons for not allocating:

a. Business unit managers object to charges for costs that are not within their control.

b. Allocations are arbitrary, and the resultant "full costs" are not reliable bases for pricing in certain strategic or tactical decision frameworks, particularly in government contracting.

c. The allocation of internal cost would not materially affect reported business unit profit.

d. Business unit managers cannot agree on an appropriate allocation method.

[1]Adapted from Statement on Management Accounting 4B, "Allocation of Services and Administrative Costs," National Association of Accountants, 1985.

Table 12: EDP Audit Function Staffing Levels By Industry Groups N=236 Companies

Industry Group	*1-3*	*4-6*	*7-14*	*15+*
Manufacturing	51%	22%	21%	6%
Financial	22	33	32	13
Utility	39	46	15	0
Transportation	0	75	25	0
Retail	40	20	40	0
Other Services	75	25	0	0
Diversified	45	22	33	0
Total Companies	97	69	55	15
Total Percentages	41%	29%	23%	6%

Table 13: EDP Audit Function Budget Levels By Company Size N=171 Companies

Company Size	*$20,000-99,999*	*$100,000-199,999*	*$200,000-399,999*	*$400,000 999,999*	*$1 Million+*
$25-499 Million	75%	17%	0%	8%	0%
$500-99 Million	34	50	0	8	8
$1-1.9 Billion	31	31	29	6	3
$2-2.9 Billion	7	7	79	7	0
$3-4.9 Billion	6	28	54	9	3
$5 Billion +	1	12	21	48	18
Total Companies	27	36	52	41	15
Total Percent	16%	21%	30%	24%	9%

Table 14: Allocation of Internal Audit Cost Practices
N=333 Companies

Industry Group	*Do Allocate*	*Do Not Allocate*
Manufacturing	39%	61%
Financial	69	31
Utility	75	25
Transportation	43	57
Retail	50	50
Other	38	62
Diversified	50	50
Total Percentage	50%	50%

publish brochures to clarify internal audit services within the company. Some of these brochures deal with allocation policy. For example, this pharmaceutical manufacturer does not allocate corporate internal audit costs: "Will my operation be charged back for the cost of the internal audit? No, it is our policy to absorb this cost as a corporate expense." Alternatively, other companies are quite specific regarding charging practices for internal audit services. A diversified manufacturer said: "Our costs are allocated to the operation which we audit based on actual time spent on the audit. Using the 1988 program total cost figure, our cost per audit man hour is $30.03. This rate includes sufficient burdens to include vacation, holiday, sick, secretarial, and seminar time. This compares with $28.82 for 1987."

For companies that do allocate these costs, a formula is needed to determine the amount charged to the audited business units. The box below contains a worksheet that a money center bank uses to formulate allocated internal audit costs.

Whether or not internal audit costs are allocated is only one factor in the relationship between the internal audit department and other groups within the organization. Perhaps the most important factor is the quality of the work performed by the internal auditors, and thus their contribution to the organizational units and the corporation as a whole.

Formula for Charging Out Audit Costs at a Money Center Bank

Name of unit being charged: _____ No. _____

1. **Personnel Expenses:**

(a) Total the full number of man hours spent on the audit. Include hours spent as travel time. Do not include weekends, holidays, absences, or other time not actually worked.

(b) Multiply item 1 (a) times the hourly salary factor of $27.90. (Note: Factor determined by taking average loaded salary costs of $3,175 per month, dividing by 22 work days, to equal $144.32 per day, or $18 per hour full personnel costs. Administrative incremental premium equalling 155 percent of loaded personnel costs is then applied to $18 hourly average to arrive at gross hourly personnel cost of $27.90.)

(c) Total Chargeable Personnel Costs

2. **Actual Out-of-Pocket Expenses:**

(a) Automobile Travel Costs:
Detail from auditors' expense reports.

(b) Other Transportation Costs:
Detail from auditors' expense reports.
Include cost of taxis, airplanes, trains, porters' tips, automobile rental costs (if authorized). Make certain that charges relate only to audit-specific instances (no side trips).

(c) Meal Expenses:
Include meal expenses for weekends, holidays, and travel days if occurring during the course of the audit. Take totals from auditors' expense reports.

(d) Lodging Expenses:
Include lodging expenses for weekends, holidays, as well as for time worked. Take totals from auditors' expense reports.

(e) Miscellaneous Expenses:
Include laundry, business phone calls, visa validation fees, and other items not classified above.

(f) **Total Chargeable Out-of-Pocket Costs**
Enter sum of lines 2(a) through (e).

3. **Total Chargeable Audit Costs**
Enter sum of items 1(c) and 2(f).

Chapter 4

Internal Audit Staff—Sources, Credentials, and Training

Several factors contribute to the effectiveness of the internal audit staff. One is the experiences of new staff members, whether recent college graduates or transferees from other departments within the firm or from public accounting firms. Another factor is the credentials the staff bring to their positions, including both academic degrees and professional certification. The training staff members receive while working in the internal audit department also bears on their effectiveness, as does their participation in professional organizations.

One key finding of this study is the contrasting corporate philosophies toward service in the internal audit unit. Only 28 percent of the companies regard internal audit as a long-term career opportunity, while the majority—64 percent—characterize internal audit experience as a "tour of duty." The remaining 8 percent blend their approach to internal audit staffing or have not established a specific policy. As a tour of duty, the internal audit experience is seen as an important training for a position in financial or operating management. One advantage attributed to this approach is that the staff rotation enhances internal auditor independence.

The prevalence of the tour-of-duty philosophy is found in all industry groups except for financial service companies as Table 15 shows. Company size is not related to either staffing approach.

Survey respondents indicated that the most common tour of duty in internal audit is three years. Tours of duty of two, three, and four years accounted for 92 percent of the responses.

The exhibit shown on page 25 was designed by one chief internal auditor and hangs over the desk in his office. It tracks the progress of corporate staff members who have moved on to financial and operating responsibilities after their internal audit service. This chart is said to be of particular value during interviews with potential internal audit staff recruits. For the candidate, it shows the career potential of internal auditing experience; it provides names of individuals who have gone through internal audit and their current positions in operating and/or financial management.

To build the best staff, one respondent (a pharmaceutical manufacturer) commented on the need to "market" the value of internal audit experience: "We have sold the benefits of internal audit experience to general management in order to bolster the internal audit staff on a tour-of-duty basis."

Recruiting Sources

Some internal audit departments tend to recruit staff from within the corporation. Other companies hire mainly from public accounting firms, from colleges, and universities or from internal audit departments of other companies. Several respondents show a preference for college recruits:

- "In the United States, most of our internal auditors come from colleges with accounting, finance, or computer degrees. Some are internal transferees, but with the amount of travel required, it is easier to work with younger staff." (natural resource company)
- "I recruit 50 to 60 staff from colleges annually out of a total of about 80 and the rest from accounting firms and

Table 15: Internal Audit Career View
N=362 Companies

	Long-Term Career	*Tour of Duty*	*Blend**
Manufacturing	17%	77%	6%
Financial Services	51	39	10
Utility	35	52	13
Transportation	38	62	0
Retailing	29	42	29
Other Services	27	73	0
Diversified	25	50	25
Total Percentage	28%	64%	8%

*This category includes those departments that use both tour of duty and long-term career approaches to staffing the internal audit function, as well as those that have not established a specific strategy.

internally. To attract the better college students, we employ three-month summer interns." (money center bank)

Other firms, however, try to avoid hiring recent graduates:

- "I don't want to do any more hiring directly from colleges." (diversified consumer products company)
- "I don't take anybody right out of college. We have only one level (class) of auditor, and I keep them two or three years." (telecommunications company)

Today, many college students do not have the opportunity to take an internal audit course. They also may lack the communication skills and maturity necessary for internal auditing. These deficiencies make many firms reluctant to hire recent graduates. In quite a few companies the primary sources for the recruitment of internal audit staff members are the financial and operating groups. Top- and middle-level management must be convinced of the importance of internal audit experience for this approach to be effective.

Credentials

When chief internal auditors hire new staff members, what credentials are they looking for? While the requirements vary considerably among companies, most study participants agree that qualifications will be more stringent in the near future.

Most chief internal auditors (80 percent) reported that they consider a bachelor's degree desirable for entry-level positions, and 20 percent require a graduate degree as well. Just over 30 percent anticipate that within five years they will require a master's degree for entry-level positions. As indicated by the figures in Table 16, some industry groups are less concerned about graduate degrees than others. Specifically, financial service companies are less likely to call for an advanced degree.

Professional Certification

Beyond academic degrees, 44 percent of the respondents indicated that they currently require the CPA, the CIA or the CISA certification of internal audit staff, and they expect a substantial increase in professional certification in the future. (See Table 17.)

For companies that consider internal audit assignments as a tour-of-duty, this expectation raises an interesting question: Why should staff members who spend only two to four years in internal audit add to their existing responsibilities by preparing and sitting for a demanding examination? Because certification exams cover financial, accounting, legal, and other topics besides auditing, certified staff may be better prepared for future moves into a variety of financial management responsibilities. Certification is also a measure of success for the auditor and represents independent validation of technical and other skills.

In companies requiring it, of course, certification is a necessary but not sufficient condition, as these observations suggest: "We're looking for auditing expertise, certification, but also for leadership skills. We want them to move into other roles," said a diversified manufacturer; "CIA or CPA—we are looking for brilliant people capable of taking leadership roles in finance and in operations," said a respondent from a telecommunications company.

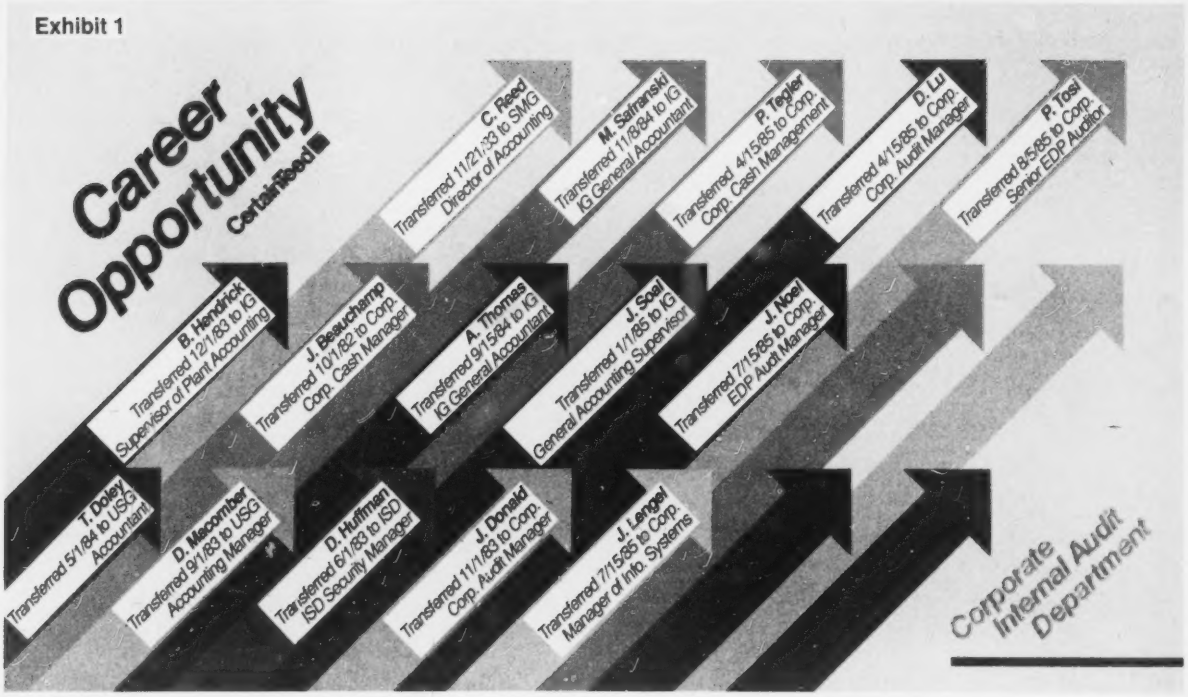
While only 44 percent of respondents currently *require* professional certification, 94 percent *encourage* their internal audit staff to obtain professional credentials such as certification. This preference is generally consistent across industry groups.

Respondents were asked how their organizations encourage internal audit staff to earn these credentials. Among the most common approaches are reimbursement for exam preparation courses and the exam fee, enhanced promotion possibilities at certification, and cash bonuses for certification.

Table 16: Preferred University Degrees

	Now N=363 companies		*Future N=355 companies*	
Industry	*Under-Graduate*	*Plus Graduate*	*Under-Graduate*	*Plus Graduate*
Manufacturing	73%	27%	65%	35%
Financial	93	7	83	17
Utility	85	15	74	26
Transportation	88	12	75	25
Retailing	71	29	71	29
Other	100	0	64	36
Diversified	80	20	67	33
Total Companies	290	73	243	112
Total Percentages	80%	20%	68%	32%

Exhibit 1



A few companies view certification as a professional requirement that should not necessarily involve an incentive program. For instance, a respondent from a petroleum products company said: "We stress advancement of professional growth opportunities, but do not reward with immediate compensation for this achievement."

As noted in Tables 16 and 17, respondents expect the desirability for both advanced degrees and professional certification to increase over the next five years. This will have major implications for aspiring internal auditors, for schools of business, for certification training programs, and for providers of continuing professional education. Several respondents indicated that whether students and educators are aware of this increased demand is questionable. Today very few undergraduate or graduate academic programs specialize in preparing entry-level internal auditors. Therefore, the responsibility for training lies with the corporate community and with the providers of certification examination programs and related exam-preparation training.

Table 17: Professional Certifications*
N=360 Companies

Certification	*Required Now*	*Desirable in the Future*
CPA	38%	79%
CIA	23	67
CISA	19	53
CMA	1	11
CBA	1	29

*Note: Respondents had the opportunity to select multiple answers.

Continuing Education

On-going training and development for internal audit staff are a necessity, not only because of educational hours mandated by certain professional organizations, but also because of the many challenges confronting internal auditing—challenges that may become even more demanding in the future. Among the issues affecting training commitment and strategies are career orientation of the department, hiring practices, staff turnover rates, and the specific assignments of internal auditors in their respective industries and companies.

There are many choices for the delivery of training to internal auditors: use of in-house talent, use of academics or outside consultants, seminars provided by professional organizations and other vendors, video training materials, self-study audio programs, and PC-based simulations. Many internal auditors prefer live instruction in a traditional classroom setting. Supplementing live instruction with other media, such as video, is also considered beneficial. The key factor is not necessarily the specific selection of resources, but the creation of a coherent training development plan for the internal audit staff.

Chief internal auditors contributing to this study view training in some topics as more difficult for their staff than others. Computer auditing techniques, written communication, and

Table 18: Degree of Difficulty in Training Professional Staff
N=331 Companies

Subject Area	Very Difficult	Moderately Difficult	No Problem
Computer auditing techniques	34%	58%	8%
Written communication	28	52	20
EDP literacy	21	62	17
Management skills	18	60	22
Operational auditing techniques	14	58	28
Oral communication	10	48	42
Financial accounting and disclosures (FASB, SEC)	9	46	45
General business knowledge	8	44	48
Financial auditing techniques	1	29	70

Table 19: 1988 Training Budgets
By Industry Groups
N=337 Companies

Industry Group	$1,000-9,999	$10,000-24,999	$25,000-74,999	$75,000+
Manufacturing	30%	31%	24%	15%
Financial Services	13	21	39	27
Utility	29	36	29	6
Transportation	42	29	29	0
Retailing	17	33	17	33
Other	27	46	27	0
Diversified	27	27	19	27
Total, All Industries	26	31	27	16

Table 20: Will Internal Audit Training Budgets Increase Over the Next Five Years?
N=362 Companies

Industry	Yes	No
Manufacturing	67%	33%
Financial	80	20
Utility	54	46
Transportation	75	25
Retailing	100	0
Other Services	46	54
Diversified	73	27
Total, All Industries	68	32

EDP knowledge and skills literacy are regarded as the most challenging training areas. Financial auditing, with its procedural emphasis, is viewed as the easiest. (See Table 18.)

Several respondents made comments about training challenges:

- ". . .the toughest training job, and possibly the most important, is training my auditors in how the business really functions and why. Without such knowledge, an auditor cannot be truly effective." (life insurance company)
- "It is extremely important for auditors to have excellent communications skills." (industrial machinery manufacturer)
- "Finding appropriate courses is a significant problem. Even good vendors are only as good as the specific site instructor." (diversified services company)
- "Exposure, experience, and individual initiative are important yet difficult to teach/train." (diversified manufacturer)
- "I currently hire experienced auditors. I feel that if we were to hire auditors from the college campus my training demands would grow." (cosmetics manufacturer)

Though on-going training and development for internal audit staff are a necessity, many respondents indicated that their training budgets were not adequate. Table 19 shows the amounts allocated to training by industry group.

Table 20 indicates that almost 70 percent of the respondents believe that budgets for internal audit training will increase in constant dollars over the next five years. This expectation is strongest among financial services, retailing, transportation, and diversified companies.

Table 21: Evaluation of Contributions Made by Various Organizations to Internal Auditor Development and Professionalism
N=330 Companies

National Professional Organizations	*Very Positive*	*Positive*	*Neutral*	*Weak*	*Negative*
Auditor Organizations:					
IIA	65%	29%	5%	1%	0%
EDPAA	29	50	19	2	0
Auditor-Related Organizations:					
AICPA	4	41	31	21	3
NAA	2	20	54	22	2
FEI	1	23	52	22	2

The most common expected increase in the training budget over the next five years is about one-third (in constant dollars)—less than half is attributable to an increase in staff size. Training budgets will almost necessarily grow if members of the internal audit staff are obliged to hold professional certification, which currently requires 30 to 40 hours of continuing education per year. The trend is for more review and enforcement by state and professional certification authorities of these continuing education requirements.

The importance of a clear, well-thought-out training policy for the internal audit function is critical to staff professionalism, as illustrated by the corporate policy statements about internal audit staff in the box on page 28.

Support from Professional Organizations

Yet another source of development for internal audit staff is involvement in professional organizations such as the Institute of Internal Auditors (IIA), the EDP Auditors Association (EDPAA), or the American Institute of Certified Public Accountants (AICPA).

Table 21 summarizes internal auditors' evaluations of the support they receive from national professional organizations. The IIA is viewed very favorably by the chief internal auditors with respect to its contributions to internal auditor development and professionalism; 94 percent consider it to make a positive or very positive contribution. The EDPAA received these ratings from 79 percent of respondents. This is notable, given the relatively low membership of respondents in the EDPAA.

The IIA and the EDPAA are primarily designed for internal auditors. The other three organizations—the AICPA, NAA, and FEI—do not hold as their central interest the development and professionalism of internal auditors. Of these three groups, the AICPA was perceived to offer the strongest support for the internal auditor community. The National Association of Accountants (NAA) and the Financial Executives Institute (FEI), which are primarily involved with corporate financial management, were on an equal footing with respect to their perceived support.

Three Internal Audit Training Policy Statements

Diversified Manufacturer

Auditors should receive approximately 40 hours of training a year in audit, accounting, data processing, tax, operations, and scientific audit techniques that would be related to the internal audit function and the business interests of the corporation. A training plan/program should be drawn up and coordinated by the director of auditing with approval of the officer in charge of the department.

To ensure the quality of outside training programs, auditors generally should attend courses that have been sponsored by the AICPA, the State Institute of CPAs, the EDP Auditors' Association, or the external auditors. As to courses sponsored by other organizations, the auditors should determine the quality of the program before attending.

Life and Casualty Insurer

Recognizing the importance of keeping internal auditors informed of current developments in internal auditing standards, procedures, techniques, etc., the Internal Audit Department has adopted the following professional training standards:

A. All internal auditors will be provided with a minimum of 20 hours of formal training per annum. This training may take various forms (e.g., audio/video cassette, seminar, lecture, etc.)

B. All certified auditors (CIA, CPA, CISA, CDP, etc.) will be provided with the minimum number of annual continuing education hours required for recertification. Every effort will be made to have the training sessions specified in "A", above, conform to standards for continuing education recognition imposed by the various regulatory bodies. Therefore, the department expects to fulfill its continuing education commitment to certified auditors by making available only those additional hours that, when added to total in-house training hours, equals the minimum number of required hours.

C. Training sessions will be scheduled several weeks in advance. Therefore, all staff members will be expected to make reasonable efforts to arrange their schedules around the training sessions.

Petroleum Products Producer

It is important for auditors to be properly trained and well supervised. For continuing professional development, audit training falls into several categories. First, formal training will take place as needed, either from company prepared courses and schooling or from outside courses and seminars. Generally, outside training will not be offered more frequently than every other year and is to be based on need. Local outside training, when available, is preferable to out-of-town training.

Second, the company's educational assistance program provides excellent support for employees who desire training through additional college-level courses. This program also covers approved review courses taken to prepare for auditor certification programs. Employee participation in this program is strictly voluntary.

Finally, the importance of on-the-job training should not be overlooked. On-the-job training in a well supervised environment provides excellent opportunity for growth in auditing.

Chapter 5

Profiles and Reflections of Chief Internal Auditors

This chapter summarizes the educational background, business experience, and professional affiliations of the chief corporate internal auditors who participated in this study. The chapter also reports on the personal reflections of chief internal auditors concerning their responsibilities, relationships, and the future of the field.

Education

All the respondents completed a bachelor's degree or its equivalent, and 70 percent earned a master's degree as well. The most common undergraduate field of study was accounting. Most of those with undergraduate accounting degrees focused on finance in their graduate programs.

Certification

Two-thirds of the responding chief internal auditors are certified public accountants, while about a fifth are certified internal auditors. Within the financial services industry group, 19 percent are chartered bank auditors. Four percent of all respondents hold the certified information systems auditor designation; most of these auditors are in the financial and other service groups.

Business Experience

Most of the survey participants (63 percent) have had public accounting experience. Some of those interviewed indicated that this type of experience would seem to be a prerequisite for the top internal audit slot. As Table 22 indicates, the most common length of experience in public accounting is three to four years followed by five to six years and seven to eight years. This experience has typically been with a large national firm.

Just under half (49 percent) of the contributors have had corporate financial management experience (Table 23). The most common length of experience is 12 plus years, closely followed by one to two years. These results are understandable, given the contrasting career approaches to internal audit positions discussed in Chapter 4.

Only 18 percent of the chief internal auditors have had operating management experience. Of these, more than 60 percent have one to four years of operating management experience, as shown in Table 24. With the increased focus on operational audits and reviews, this background "blind spot" deserves attention from chief internal auditors, as well as from senior management. According to some respondents, lack of experience can be compensated for through extensive orientation and field location visits—along with a strong dose of listening.

Table 22: Years of Public Accounting Experience
N=237 Companies

Years of Experience	*Percent of Chief Internal Auditors*
1-2	13%
3-4	25
5-6	18
7-8	16
9-10	10
11-12	8
12+	10
Total	100%

Table 23: Years of Financial Management Experience
N=183 Companies

Years of Experience	*Percent of Chief Internal Auditors*
1-2	21%
3-4	14
5-6	13
7-8	10
9-10	8
11-12	12
12+	22
Total	100%

Table 24: Years of Operating Management Experience
N=72 Companies

Years of Experience	Percent of Chief Internal Auditors
1-2	35%
3-4	26
5-6	14
7-8	6
9-10	7
11-12	1
12+	11
Total	100%

Table 25: Total Internal Audit Experience*
N=369 Companies

Years	Percent of Chief Internal Auditors
1-3	21%
4-6	22
7-9	17
10-12	12
13-15	11
15-35	17
Total	100%

*Includes time in present position.

Forty-three percent of chief internal auditors have four or fewer years of internal audit experience (Table 25). This finding reflects the tour-of-duty staffing approach as it specifically applies to the chief internal auditor.

Fifty-nine percent of chief internal auditors have been in their position for four years or less (Table 26). This points to the challenge for many chief internal auditors to quickly learn about their role and the role of their function within their corporations.

The box on page 31 contains a large manufacturer's position description for chief internal auditor. This description illustrates the experience typically required for this job.

Table 26: Experience in Current Position
N=369 Companies

Years	Percent of Chief Internal Auditors
1-2	37%
3-4	22
5-6	15
7-8	8
9-10	6
11-25	12
Total	100%

Membership in Professional Organizations

Table 27 indicates chief internal auditors are active in a variety of professional organizations. Over three-quarters of the chief internal auditors are members of the Institute of Internal Auditors (IIA), with strength in manufacturing, other services, and diversified industries. Fifty-seven percent hold membership in the AICPA, the only group of those listed that requires passage of a formal examination for membership. AICPA membership is strongest in nonfinancial services and diversified companies.

Some chief internal auditors stress the value of local and regional chief internal auditor groups that meet monthly or quarterly. Although these groups are generally not sponsored by a national organization, they are considered quite valuable because of the candid exchange that is common at meetings. Others speak approvingly of chief internal auditor groups that are part of national industry organizations, such as those in the pharmaceutical, retail, and securities industries.

Reflections

The following are a series of reflections and observations about the present and future of internal auditing that were derived from interviews with chief internal auditors.

Sources of Pressure

Over the last ten years, the image of internal auditing has improved greatly within the corporation. But this positive effect has resulted in increased expectations from management regarding internal audit, expectations that have sometimes become difficult to meet.

Effects of Business Cycles

The normal fluctuation in business activities affect internal audit departments. In periods of economic downturn, internal auditors are often pressed to focus on audits that will lead to efficiencies and cost savings. Alternatively, in periods of economic expansion, internal auditors may then turn their attention to operating and management, as well as accounting, control issues.[1]

[1]For more detail see J. B. Schiff, C. B. May, and J. Miller, *Issues Paper: Guidance on Internal Control*, National Association of Accountants, 1989, p. 6.

Table 27: Chief Internal Auditor Membership in National Professional Organizations N=363 Companies

National Professional Organization	*Percent of Chief Internal Auditors Who Are Members**
IIA	77%
AICPA	57
NAA	13
FEI	8
EDPAA	6

*Respondents had the opportuntiy to select multiple answers.

Perception of Internal Auditing

Chief internal auditors often feel a responsibility and burden to "educate" new top managers and new audit committee members about internal auditing. Although internal auditors have advanced in terms of authority and stature over a relatively brief time, some respondents characterize new appointees to corporate boards as naive or ill-informed regarding the role of internal audit, both in general and within their specific companies.

Diverse Activities

The diversity of the activities in which internal auditing is engaged frequently creates a real benefit to the staff, in that its members view the company, its problems and opportunities from a broad perspective. However, this diversity also creates serious challenges, as well. Not all staff can effectively perform financial, operational, compliance, systems, and fraud auditing activities. As a result, the chief internal auditor needs to develop a staff of individuals with specific strengths that, collectively, represent a broad set of skills that can be applied to the varied activities for which auditors are responsible.

Honesty and Integrity

Chief internal auditors feel a need to communicate to their staffs a strong sense of commitment to honesty and to integrity both in appearance and in reality. They realize that a positive image can evaporate from one ill-considered move. As a result, they are becoming increasingly wary of the types of assignments they accept, choosing not to undertake projects that may compromise even the appearance of their independence. For example, if a business unit requests that internal audit become deeply involved in the design of a new system that internal audit will review after the system is operational, the chief internal auditor may refuse intense up-front involvement in order to maintain objectivity.

Position Specification: Chief Internal Auditor

Education:
College graduate in accounting or business administration with accounting emphasis. CPA, CIA, or equivalent experience required.

Experience:
Eight to ten years, including two or three years of public accounting experience or equivalent internal audit experience and five or more years of audit or business management background. Related business management experience in either accounting or general management is desirable.

Other Qualifications:
Should possess all the classic characteristics associated with successful managers. However, heavy emphasis must be given to items such as analytical ability, good oral and written communication skills, tact and diplomacy, planning and leadership ability, and judgement. Must be willing to travel 10 percent to 20 percent of time.

Reporting Status

Most of those interviewed felt that while the reporting line of the chief internal auditor is an important consideration with respect to independence and status, other factors may be of equal or greater impact. These factors include the time top management has available for the chief internal auditor and his or her concerns, the resources that are applied to the internal auditing function, the formal and informal relationship of the chief internal auditor with the audit committee, and the nature and quality of the overall internal control structure.

Self-image and the Future

Chief internal auditors feel they are key contributors to the long-term success of their companies. And they are challenged and stimulated by new opportunities. In short, they are a happy breed. They voice two principal concerns about the future. One is the ability to attract and improve the quality of individuals in the internal audit services, given the expectation of increased involvement in new activities and the prevalence of the tour-of-duty approach to staffing. The second concern revolves around the rapidly changing world of automated systems that offer the opportunity for new products and services, but are fraught with control risks. It is clear to chief internal auditors that their businesses are becoming more information-dependent and that their approach to the review of these new systems needs to be a key part of their strategy for the future.

Chapter 6

Views on the Treadway Commission Report Recommendations

Among recent events that are likely to have a strong impact on internal auditing are the recommendations of the National Commission on Fraudulent Financial Reporting. This Commission was a private-sector initiative, jointly sponsored and funded bythe AICPA, the AAA, the FEI, the IIA, and the NAA. The name "Treadway Commission" is derived from the name of its chairman, James C. Treadway, Jr., a former commissioner of the SEC.

The Treadway Commission was formed to address the problem of fraudulent financial reporting. The Commission's three major objectives were:

1. To consider:

- the extent to which acts of fraudulent financial reporting undermine the integrity of financial reporting;
- the forces and the opportunities—environmental, institutional, or individual—that may contribute to these acts;
- the extent to which fraudulent financial reporting can be prevented or deterred and to which it can be detected soon after occurrence;
- the extent, if any, to which incidents of this type of fraud may be the product of a decline in professionalism of corporate financial officers and internal auditors; and
- the extent, if any, to which the regulatory and law enforcement environment may have unwittingly tolerated or contributed to the occurrence of this type of fraud.

2. To examine the role of the independent public accountant in detecting fraud, focusing particularly on whether the detection of fraudulent financial reporting has been neglected or insufficiently focused on and whether the ability of the independent public accountant to detect such fraud can be enhanced; and to consider whether changes in auditing standards or procedures—internal or external—would reduce the extent of fraudulent reporting.

3. To identify attributes of the corporate structure that may contribute to acts of fraudulent financial reporting or the failure to detect such acts promptly.[1]

In summary, the Treadway Commission found that ". . . no one answer to the problem of fraudulent financial reporting exists. Rather, improvement is needed i. .il areas."[2] The Commission's report presents a number of integrated recommendations directed to four groups: public companies, independent public accountants, the SEC and others (to improve the regulatory and legal environment), and educators.

The participants in this study were asked to react to a selection of recommendations resulting from the Commission's work. Exhibit 2 summarizes their reactions.

The majority of the respondents registered "strongly agree" or "agree" votes for all but the last two of the listed recommendations. For each of the first three, such votes totaled more than 90 percent.

Responses to the recommendations were very similar for both public and nonpublic companies. There were no industry-specific reactions to most of the recommendations, with the exception of those involving more rigorous review of quarterly financial reports. Representatives of diversified industries and retailing groups gave proportionately more "disagree or strongly disagree" responses to the recommendations about audit committee oversight over the quarterly reporting process than did representatives of other industries. Manufacturing and other service groups are more opposed than other industries to the SEC's requiring that the independent auditor become more involved in the review of quarterly financial reports. However, when this report was completed, this requirement seemed to be coming to fruition.

Specific concerns were expressed about several Commission recommendations. For example, audit committee over-

[1] *Report of the National Commission on Corporate Financial Reporting*, National Commission on Fradulent Financial Reporting, 1987, p. 2.
[2] Ibid, p. 7.

Exhibit 2: Reactions to Treadway Commission Recommendations
N=370 Companies

Recommendations	*Strongly Agree*	*Agree*	*Indifferent*	*Disagree*	*Strongly Disagree*
The boards of directors of all public companies should be required by SEC rule to establish audit committees composed solely of independent directors.	68%	27%	2%	2%	1%
All public companies should develop a written charter setting forth the duties and responsibilities of the audit committee.	60	35	5	0	0
Internal auditors should consider the implications of their nonfinancial audit findings for the company's financial statements.	43	48	5	3	1
Management should advise the audit committee when it seeks a second opinion on a significant accounting issue.	40	49	8	3	0
Before the beginning of each year, the audit committee should review management's plans for engaging the company's independent public accountant to perform management advisory services during the coming year, considering both the types of services that may be rendered and the projected fees.	37	41	15	6	1
The management report should acknowledge management's responsibilities for the financial statements and internal control, discuss how these responsibilities were fulfilled, and provide management's assessment of the effectiveness of the company's internal control.	32	49	12	5	2
All public companies should be required by SEC rule to include in their annual reports to stockholders, management reports signed by the CEO and the Chief Accounting Officer and/or the CFO.	29	42	18	9	2
When a public company changes independent public accountants, it should be required by SEC rule to disclose the nature of any material accounting or auditing issue discussed with both its old and new auditor during the three-year period preceding the change.	29	49	10	10	2
The AICPA should reorganize the Auditing Standards Board to afford a full participatory role in the standard setting process to knowledgeable persons who are affected by and interested in auditing standards, but who either are not CPAs or are CPAs not presently in public practice.	19	37	30	12	2
The SEC should require independent public accountants to review quarterly financial data of all public companies before release to the public.	13	36	22	22	7
Audit committees should oversee the quarterly reporting process.	11	29	28	23	9

sight related to the quarterly reporting process raised questions. What is meant by "oversight" in this context? Will this recommendation draw the audit committee into a management role within the corporation which would eventually compromise its independence? On a related issue, some respondents objected to the notion of a letter to shareholders from the audit committee chairperson. Several respondents mentioned the issue of the financial hardship that would be encountered by smaller, publicly held companies if they are required to adopt the Treadway Commission's recommendations. Interestingly, all these concerns have been voiced by corporate controllers.[3]

Most of the chief internal auditors interviewed believe there is a clear relationship between extensive media coverage of fraudulent business practices, like those engaged in by ESM Securities and ZZZ Best, and pressure from the United States Congress. These executives also believe there is little potential for actual conflict of interest when external auditors accept management consulting engagements with auditing clients. Most do agree that there may be a perceptual problem associated with these activities.

In summary, there is widespread support for the Commission's recommendations. And other research indicates that more than 91 percent of Fortune 500 internal auditors believe their companies are in overall compliance with these recommendations.[4]

Respondents were asked to comment on the Treadway recommendations. Here are three representative comments:

- "If audit committees were staffed properly, and were allowed to function without fear of liability, then they would fulfill their role better, lessening the need for regulatory oversight by the SEC. . ." (construction firm)

- "Regulators would like the audit committee to get more involved in operations. This is a troubling development that challenges the current 'oversight' role." (money center bank)

- "I think that the Treadway Commission report was helpful for the profession of internal auditing. Hopefully, we'll see companies react and place more emphasis on the function." (machinery manufacturer)

If the last prediction is correct, the recommendations of the Treadway Commission should strengthen the internal auditing function, thus improving its ability to contribute to long-term corporate health.

[3]J. B. Schiff, *The Treadway Commission Report: What do Controllers Think?* Directorship, December 1987, pp. 5-6.

[4]John E. McEnroe, *Treadway Commission Recommendations: Results at Fortune 500 Companies*, Internal Auditing, Fall, 1989, p. 38.

Appendices

Appendix 1: Other New Independent Auditor Standards Affecting Internal Auditors

This appendix summarizes some of the changes in external auditor practices delineated in recent statements on auditing standards. A clear understanding of the scope and guidelines for the independent auditor will help internal and independent auditors cooperate to improve audit coverage.

SAS No. 54, "Illegal Acts by Clients," defines two types of illegal acts. The first are those having a "direct and material effect on the determination of financial statement amounts," such as a violation of tax laws. For example, if income tax laws are evaded, resulting in a material understatement in income tax liability on the balance sheet, the independent auditor has responsibility for detecting related errors and irregularities included in the financial statements.

The second type of illegal act is one having an indirect effect on the financial statements, such as an Occupational Safety and Hazards Administration (OSHA) violation. Here the auditor has no reporting responsibility except when he or she believes the violation could have a material effect on the financial statements—for example, if the violation could impair the business entity's key assets or restrict its securities-issuing and trading activities within the financial markets.

SAS No. 56, "Analytical Procedures," enacts the Treadway Commission recommendation that analytical review procedures be required in all audits. These procedures involve a study of relationships among recorded financial data and include an examination of general financial condition and profitability trends, operating and financial ratios, and the reasonableness of account balances and transactions.

SAS No. 57, "Auditing Accounting Estimates," provides guidance for auditing accounting estimates. Accounting estimates include estimated useful lives for depreciable plant and equipment; estimated lives for intangible assests, such as trademarks, copyrights, and patents; estimated allowance for bad debts; and estimated outlays for warranty costs. These items may have a material impact on asset position, as well as on the determination of periodic net income.

SAS No. 58, " Reports on Audited Financial Statements," recommends the addition of a paragraph to the auditor's report on the annual financial statements, explaining what the audit entails. SAS No. 58 contains the following statements:

"Those standards [generally accepted auditing standards] require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement."

The report must now state that financial statements are management's responsibility and the auditor is responsible for expressing an opinion based on the audit. Also, an earlier requirement for consistency in the application of accounting principles has been dropped, unless the company has not followed these principles consistently.

SAS No. 59, "The Auditor's Consideration of an Entity's Abil'ty to Continue as a Going Concern," is the most controversial of the new auditing standards. "Going concern" pertains to the probable short-term future continuity of the business enitity. An assessment of future financial health is understandably a very sensitive exposure area for the external auditor.

The statement says: "The independent auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited." However, "it is not necessary to design audit procedures solely to identify conditions and events that . . . indicate there could be substantial doubt." If the auditor thinks there is substanial doubt about whether an entity is a going concern, he or she should consider management's plans, the possible effects on the financial statements, and the adequacy of disclosure. The auditor also should consider an explanatory paragraph in the audit report.

Unfavorable operating conditions, untoward external events and financial difficulties may indicate a going concern problem.[1] These effects may noticed and reported first by the internal audit staff.

Under SAS No. 60, "Communications of Internal Control Structure and Related Matters Noted in an Audit," auditors will report "reportable condition" rather than the "material weaknesses" which previously had to be reported. Reportable conditions are "matters coming to the auditor's attention that, in his or her judgment, should be communicated to the audit committee because they represent significant deficiencies in the design or operation of the internal control structure which which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements."

For example, suppose a business entity acquired a profitable non-publicly-held high-tech software company. This firm had been organized as a single proprietorship by its founder and president. Following the acquisition, the company's standards of financial reporting and control were not in place in the new subsidiary. This may result in a reportable condition that could prevent the parent from preparing consolidated financial statements.

SAS No. 61, "Communication with Audit Committees," requires the reporting of:

- The external auditor's responsibility under GAAS
- Significant accounting policies, management judgments and accounting estimates
- Significant audit adjustments
- The auditor's responsibility for other information in documents containing audited financial statements and any procedures performed with respect to that information and the results
- Disagreements with management
- Consultations by management with other accountants
- Major issues discussed with management prior to being hired as an auditor
- Difficulties encountered in performing the audit.

This standard provides a formal link between the external auditor and the audit committee. Routine, as well as more unusual matters, are to be communicated through this link. This standard formalizes the external auditor's communication with the audit committee, supplementing traditional reporting to top management.

[1] John E. Ellingsen, Kurt Parry, and Peg Fagan, "SAS No. 59: How to Evaluate Going Concern," *Journal of Accountancy*, January 1989, pp. 24-31.

Appendix 2: Detailed Responses to the Frequency of Selected Internal Audit Activities

FINANCIAL AUDITING ACTIVITIES
Percent of Respondents
(Reference: Chart 1)

	Current			Future		
Activities	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Evaluating the adequacy of internal accounting controls	94%	5%	0%	96%	2%	1%
Evaluating the accuracy, reliability, and completeness of financial reports	50	42	7	59	37	3
Evaluating the impact of changes in SEC regulation or accounting rules	21	43	35	25	52	23
Testing the accuracy and reliability of interim/quarterly financial results reported externally	18	20	61	23	39	38
Testing compliance with:						
IRS code	14	49	36	17	55	28
State tax laws	12	47	40	16	50	34
Foreign tax laws	8	27	65	11	35	54
GAAP	55	34	10	58	35	7
Regulatory accounting	31	41	27	32	43	23

OPERATIONAL AUDITING ACTIVITIES
Percent of Respondents
(Reference: Chart 2)

	Current			Future		
Activities	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Assessment of manual system control	74%	23%	2%	75%	22%	2%
Employee benefits plan review	39	42	18	46	43	10
Capital expenditures audits	39	45	15	45	48	6
Operating efficiency reviews	37	44	18	48	42	10
Business contingency planning review	36	48	15	44	49	7
Review of long-term contracts and purchase agreements	34	52	13	41	51	8
Evaluating usefulness of financial reports for management control and decision making	27	54	18	39	52	8
Reviews of EDP's operational efficiency	14	45	41	22	58	20

COMPLIANCE AUDITING ACTIVITIES
Percent of Respondents
(Reference: Chart 3)

	Current			Future		
Activities	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Compliance with company code of ethics	63%	25%	11%	70%	23%	6%
Compliance with other non-financial policies and procedures	61	34	4	64	33	3
Reviewing compliance with procedures for preventing or uncovering illegal or questionable payments	60	34	5	67	31	2
Compliance with laws and regulations	47	44	8	50	43	6

EDP and SYSTEMS AUDITING ACTIVITIES
Percent of Respondents
(Reference: Chart 4)

	Current			Future		
Activities	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Evaluating controls in DP installations (e.g., physical security, disaster recovery, access control)	78%	16%	6%	84%	15%	1%
Audits of data processing installations (excluding reviews of operational efficiency)	71	18	11	78	18	4
Assessment of exsiting business application systems (including post-installations audits)	65	26	9	76	21	2
Assisting non-EDP internal auditors on functional audits (payroll, accounts payable, etc.)	57	31	12	62	31	7
Review of, and/or participation in, new EDP application systems development projects	51	35	14	65	30	5
Use of security software (e.g., RACF, ACF2)	51	20	29	59	27	14
Reviews of, and/or participation in, improvements to existing EDP application systems	35	47	18	43	48	8
Evaluating telecommunication controls	32	42	26	50	45	5

USE OF COMPUTER-ASSISTED AUDITING TECHNIQUES (CAATs)
Percent of Respondents
(Reference: Chart 8)

	Current			*Future*		
Technique	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Microcomputers	60%	28%	12%	77%	20%	3%
Spread-sheet programs	57	33	9	73	24	3
Mainframe audit software	49	27	24	63	29	8
Report writers	47	36	17	63	29	7
Utility programs	34	40	26	44	43	13
Data base programs	32	40	28	51	40	9
On-line testing	24	38	38	37	46	17
Test data	23	43	34	33	50	17
Downloading from mainframe to microcomputers	20	41	39	57	37	5
Integrated test facility	7	22	71	16	42	42
Mini-mainframe hardware	5	18	77	10	33	57

INTERNAL CONSULTING ACTIVITIES
Percent of Respondents
(Reference: Chart 9)

	Current			*Future*		
Activities	*Regularly*	*Occasionally*	*Never*	*Regularly*	*Occasionally*	*Never*
Vulnerability assessment	17%	39%	44%	24%	42%	34%
Product and quality control functions	16	47	37	23	48	29
Acquisition and divestiture analysis	15	47	38	20	57	22
Executive compensation review	15	28	56	17	35	48
Early warning system involvement	14	36	49	21	42	37
Auditing of outside vendor service (e.g., construction projects, maintenance programs, stocks registration)	12	36	51	17	46	36

Appendix 3: Internal Audit Mission Statements and Department Charters

Charter of Capital Holding Internal Audit

Purpose
The purpose of this Charter is to set forth the mission, organization, authority and responsibility of Internal Audit at Capital Holding.

Mission
The primary mission of Internal Audit is to provide all levels of management with an independent appraisal of effectiveness of internal controls, the extent of compliance with Company policies, and the degree to which resources of the Company are safeguarded from loss.

Authority
Where deemed appropriate in exceptional cases, the Director of Internal Audit is specifically authorize to communicate directly to the Chairman and CEO and/or the Audit Committee of the Board. In accomplishing the mission of Internal Audit, the Director and his staff are required to have full, free and unrestricted access to all company activities, records, property and employees, and are responsible for the confidentiality of all information received.

Relationship to Management
Internal Audit is an independent function and has no direct authority over activities it reviews. This independence from operating management is essential for Internal Audit personnel to be objective in the performance of audit assignments. The independent evaluation of control by Internal Audit does not relieve operating management of their basic responsibilities for designing, implementing, maintaining, and monitoring oraganization activities, systems and practices, and for promptly reporting any control breach.

Responsibilities
All Internal Audit activities are to be conducted in compliance with Company policies and values as well as the Standards for the Practices of Internal Auditing and the professional Code of Ethics published by the Institute of Internal Auditors.

Internal Audit responsibilities include:
- Appraising the adequacy and effectiveness of financial controls and the reliability of information developed within the Company
- Ascertaining the adequacy of controls for safeguarding Company assests.
- Reviewing the development and application of significant data processing systems for adequacy of controls.
- Evaluating systems of controls with respect to the deterrence and detection of fraud, and being alert for indications of fraud.
- Assessing the risk of various Corporate functions and coordinating the resources of both internal and external audit groups.
- Reporting results and recommendations of all audits to management and following up on actions taken by management.
- Performing special reviews requested by Company management or the Board of Directors.

This audit charter of Capital Holding applies to all Capital Holding and affiliate Internal Audit functions.

M.A. Hanna Company
Auditing and Procedure Manual

Charter, Authority and Responsibilities

I. **Charter**

1.1 **Introduction**

The Internal Audit Department (IAD) is an independent appraisal activity for the review of operations as a service to management. It is a managerial control function which measures and evaluates the effectiveness of internal controls. The objective is to assist all members of management in the effective implementation of their responsibilities. To this end, the IAD furnishes analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

1.2 **Role of the Internal Audit Department**

The Internal Audit Department is established by the Senior Management of M.A. Hanna Company and the Board of Directors. Its responsibilities are defined by the Chairman and Chief Executive Officer of the Company and the Audit Committee of the Board. The Director of Internal Audit will report administratively and functionally to the Chairman and Chief Executive Officer and functionally to the Audit Committee of the Board of Directors.

1.3 **Authorization and Responsibilities**

Authorization is granted for full and complete access to any of the organization's records (either manual or electronic), physical properties, and personnel relevant to a review. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not develop and install procedures, prepare records, or engage in activities which would normally be reviewed by internal auditors.

Recommendations on standards of control to apply to a specific activity may be included in the written report of audit findings and opinions which is given to operating management for review and implementation.

1.4 **Definition of Audit Scope**

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

1.5 **Reporting Accountabilities**

A written report will be prepared and issued by the respective staff members and the Director of Internal Audit following the conclusion of each audit and will be distributed as appropriate. A copy of the full report will be forwarded to the Chairman and Chief Executive Officer.

The manager of the activity or department receiving the internal audit report will respond in writing to the audit report. This response will indicate what actions were taken in regard to the specific findings and recommendations in the internal audit report. If appropriate, a timetable for the anticipated completion of these actions will be included.

California Federal Bank
Internal Audit Division Objectives

In fulfilling its mission, the Division's objectives for 1988 include the following:

- Provide Management and the Board with independent evaluations of scheduled audit areas;
- Recommend improvements in internal controls to assist Management in controlling risks;
- Assure that Peat Marwick Main & Co. can place increased reliance on the Division's work thereby optimizing total audit coverage;
- Improve the overall quality of audit work through staff training and development, standardization of workpapers and reports and formalizing the internal review process;
- Control audit projects to accomplish the projected Audit Plan while still being responsive to Management and Board needs; and
- Improve communications with Management and the Board to respond to their concerns in a timely and effective manner.

Motorola, Inc.
Corporate Audit Responsibility and Authority

Purpose

To communicate Motorola Corporate Audit duties and responsibilities relating to Motorola operations worldwide.

1.2 **The Charter of the Corporate Audit Department**

The Charter of the Motorola Corporate Audit Department is to assist all members of management in effectively fulfilling their responsibilities by providing independent analysis, appraisals, recommendations, and relevant comments regarding the financial, operational, and internal control policies/procedures within the various organizations of the Company. The Corporate Audit Department may audit any phrase of Motorola's business activity in providing this service to management. However, the audits/review of the Corporate Audit department are not a substitute for the reviews of operating management, who are charged with primary responsibility of maintaining an adequate internal control environment.

2.0 **Background**

2.1 The Charter of the Motorola Corporate Audit Department has been derived from the Statement of Responsibilities, used by the Institute of Internal Auditors, and has received the full support of the Chief Executive Office as shown in this excerpt from CEO memo to all elected officers, their staff, Facility Controllers and General Managers:

"Each of you should consider an internal audit review as an opportunity to improve the overall effectiveness and efficiency of your area of responsibility. Our auditors have a unique ability and opportunity to review the diversified operations in the Corporations, and accordingly, can facilitate an exchange of good procedures and techniques among locations. Your continued cooperation with and support of our auditing activities are both required and appreciated."

2.2 The Corporate Audit Department is a service organization that conducts independent reviews and evaluations of all the Company's activities.

2.3 The Corporate auditors make recommendations for improvements or changes to financial or operational procedures and are responsible for obtaining and evaluating the responses from management to problems identified.

2.4 The Corporate auditors will not develop policies/procedures/systems, prepare financial records, or engage in any other activity that may in fact or appearance compromise Corporate Audit's independence or objectivity.

2.5 It is primary responsibility of MIS and the various user groups to develop well-controlled systems within economic and technical constraints that meet the needs of the business. Corporate Audit is independent of systems development and will not take responsibility for any part of the development activity. Corporate Audit is responsible for reviewing the development activity to ensure that systems are well-controlled, well-documented, incorporate adequate audit trails, have reasonable stated costs and benefits, are adequately tested, and can be successfully implemented/maintained.

A Nationwide Transportation Company
Audit Department Functions

General

The Vice President-Internal Auditing is responsible for the internal auditing functions of the company and its subsidiaries. The internal auditing department assists the company and subsidiary management in the effective fulfillment of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning their operations and activities.

Function

- to review and appraise the soundness, adequacy and application of accounting, financial and other operating controls, and to promote effective control at reasonable cost by conducting financial and operational audits of all subsidiaries and corporate staff departments;
- to determine compliance with established policies, plans and procedures;
- to ascertain the extent to which assets are properly accounted for and safeguarded from losses of all kinds;
- to work with company and subsidiary management and local law enforcement officials in the investigation, determination and reporting of security violations, breaches of fidelity and conflict of interest cases;
- to determine the reliability of data developed within the company or its subsidiaries;
- to research and disseminate information regarding prospective mergers, acquistions and other contractual arrangements;
- to coordinate efforts with the company's independent accounting firm to secure maximum financial auditing coverage with minimum expenditures; and
- to expand financial audit findings into operational studies leading to recommendations for operating improvements.

Libbey-Owens-Ford Co.
Internal Audit Charter

Purpose

This policy defines the purpose, authority and responsibilities of the Internal Audit Department.

Scope & Objectives

Corporate policy provides for an Internal Audit Department to independently review and appraise the soundness, adequacy, and application of financial and operating controls to accomplish corporate objectives in compliance with management's performance plans, established policies, procedures, and sound business practices.

In accomplishing these activities the internal audit department is authorized to have free and unrestricted access to all company records, property, and personnel.

Internal audits are periodically performed to evaluate:

— the accuarcy and reliability of financial and operational data
— if company policies and procedures are being adhered to,
— if internal controls are present and functioning as intended,
— the effectiveness and efficiency of operations,
— accomplishment of established objectives and goals for the operations.

Audit reports are reviewed with responsible personnel before issuing them.

Audit reports containing findings and recommendations are prepared for distribution to concerned management, including Chief Executive Officer.

Replies to audit reports are required and must describe what if any action will be taken or planned, including commitment to implementation dates.

Responsibility

The Internal Audit staff report to the Audit Manager. The Manager of Internal Audit reports directly to the Chief Executive Officer with a dotted line relationship with the Board of Directors and the Corporate Controller.

Rubbermaid Inc.
Corporate Internal Audit's Mission Statement

The Corporate Internal Audit Department of Rubbermaid Incorporated is responsible for:

- Evaluating and determining the adequacy of internal controls for both manual and automated systems and making cost-effective recommendations for strengthening those controls where necessary for accurate financial reporting and the safeguarding of assets.
- Attesting to the accuracy of the financial statements thus assuring that reported information is in accordance with generally acccepted accounting principles in all material respects for the entity and period under review.
- Minimizing to the extent possible and where cost effective Rubbermaid Incorporated's external audit fees and act as a liaison between external auditors and the Company.
- Verifying the level of compliance with Corporate Policies and Procedures which have a significant impact on operations and internal reporting.
- Identifying and recruiting individuals with long-term management potential into the internal audit funtion while providing them with a meaningful educational envioronment whereby they have exposure to all facets of the various Rubbermaid businesses.
- Reporting in written form to both operating company and Corporate senior management the scope of procedures performed and the related comments and recommendations. In addition, formal semiannual presentations covering the aduits conducted and their results will be made directly to the Audit Committee of the Board of Directors.

The procedures are intended to provide reasonable assurance as to the adequacy of internal controls, the accuracy of financial information and the safeguarding of the assets. The examinations are conducted in accordance with generally accepted auditing standards and accordingly, include such tests of the accounting records and such other auditing procedures as is considered necessary in the circumstances.

In addition to the responsibilities stated above, the Internal Audit Department will address other areas as their availability permits. Availability is defined as time in the audit plan after sufficient hours have been schedules to assure achievement of the aforementioned responsibilities. The additional responsibilities are:

- Performing operational reviews of critical business processes in order to reduce costs and improve operations.
- Participate as requested in special projects that have a significant contribution to the business and where internal audit has the expertise to successfully complete the assignment.

TU Services
Internal Audit Department Charter

The following sections establish and describe Company policy concerning the mission, organization, accountabilities, and operation of the Texas Utilities Company Internal Audit Department.

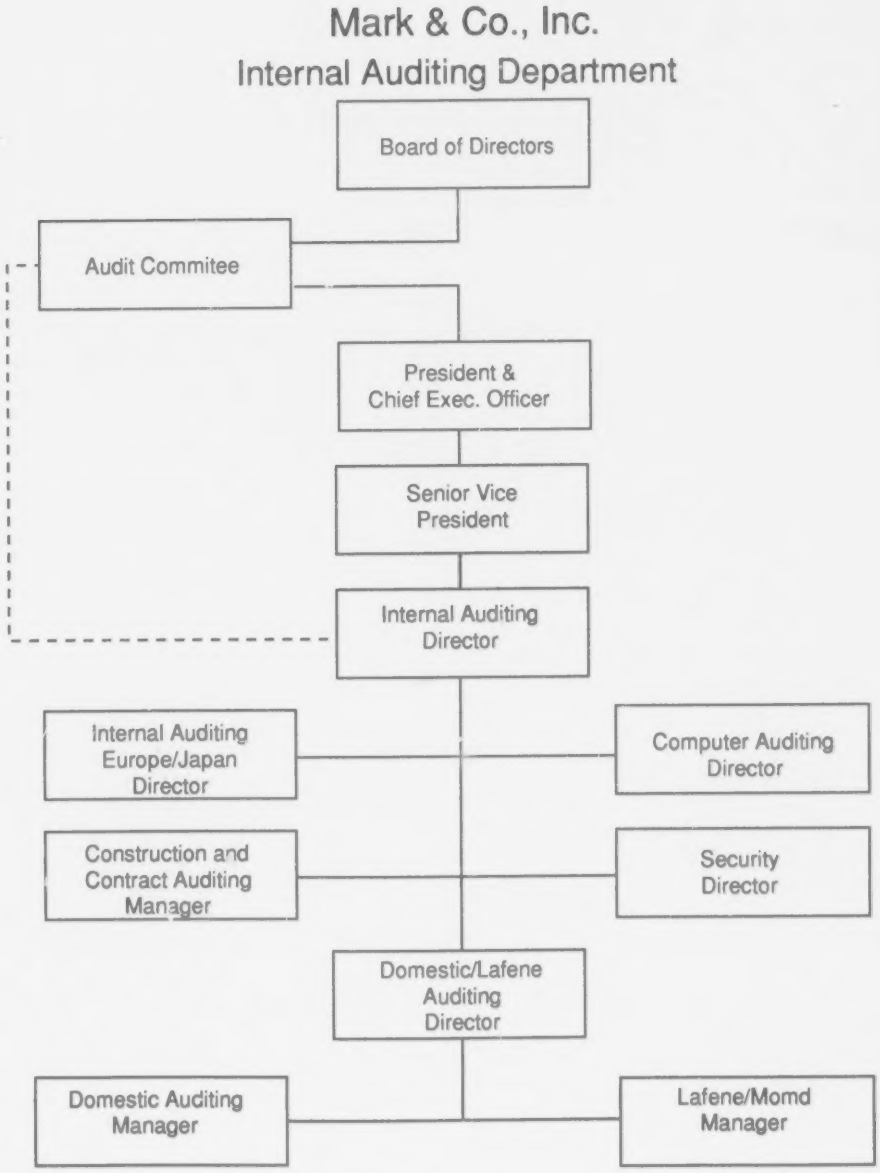
Mission
The provision of Internal Audit Department is considered an important part of the efforts of the Texas Utilities Company System to attain Objectives concerning (1) the maintenance of proper levels of accounting and administrative control; (2) implementation and application of effective policies, plans, and procedures; (3) assurance of the reliability and integrity of financial and operating information; (4) maintenance of accountability for, and safeguarding of, Company assets and resources; and (5) utilization of such assets and resources with high levels of productivity.

The mission of the Internal Audit Department is to provide assistance to all companies in the Texas Utilities Company System in attaining these Objectives.

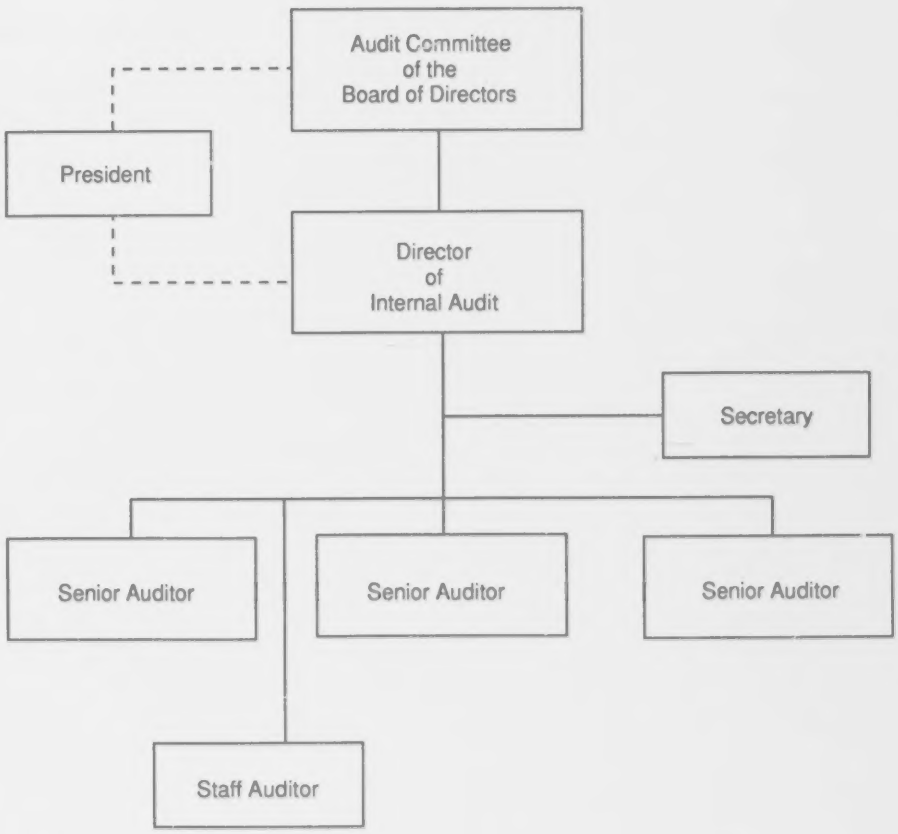
Organization
The Internal Audit Department is headed by the Director, Internal Audit. The Director reports administratively to the President, Texas Utilities Company and, further, has functional reporting responsibilities to the Audit Committee of the Texas Utilities Company Board of Directors.

Accountabilities
Broadly, the Internal Audit Department is accountable for the review and audit of selected organizations and activities in all areas of the system to identify and evaluate measures taken to attain the stated objectives. Furthermore, the Internal Audit Department is responsible for promptly reporting the results of such audits, along with worthwhile recommendations for improvement, to members of management at appropriate organizational levels who need to be informed or take action. Finally, Internal Audit is accountable for conducting suitable follow-up on the disposition of such recommendations.

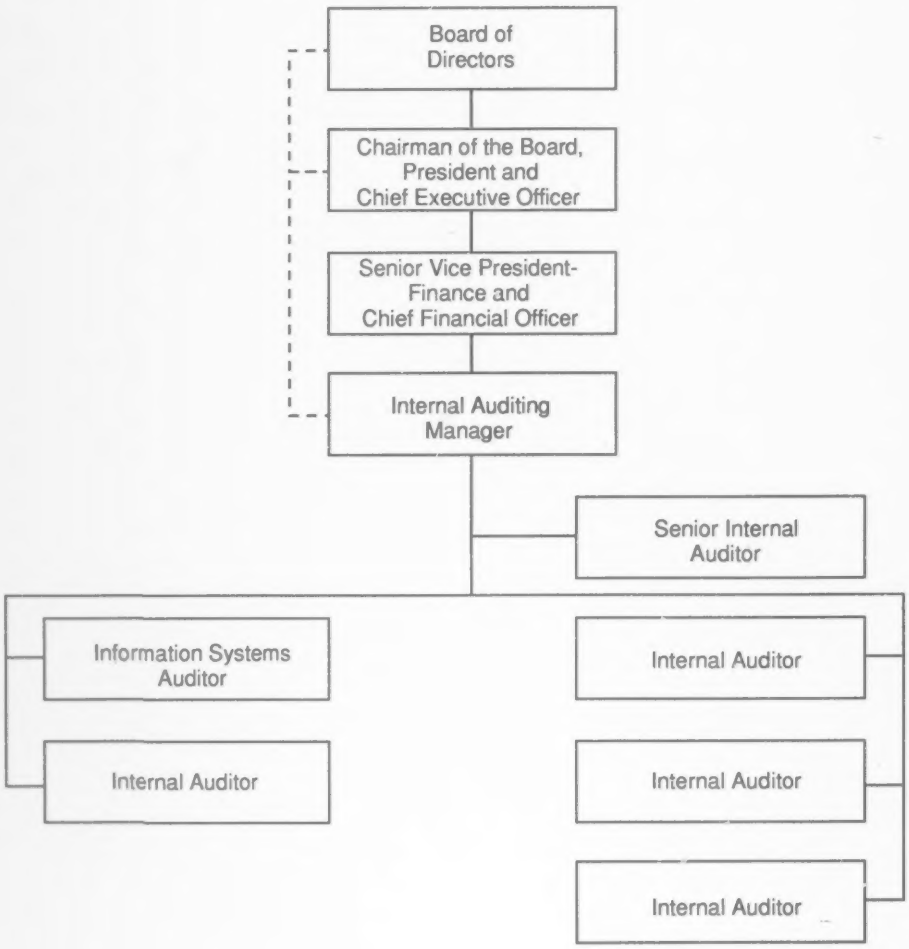
Appendix 4: Internal Audit Department Organizational Charts



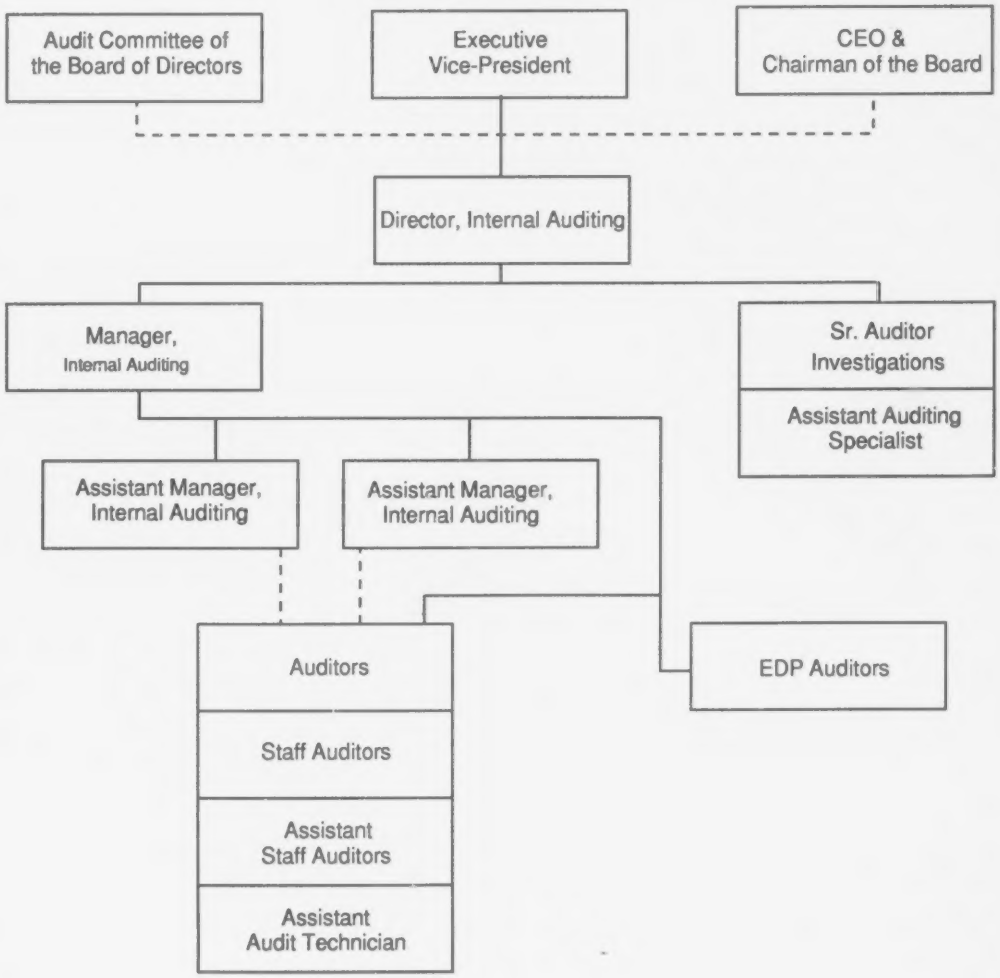
A Diversified Industrial Manufacturer
Internal Audit Department



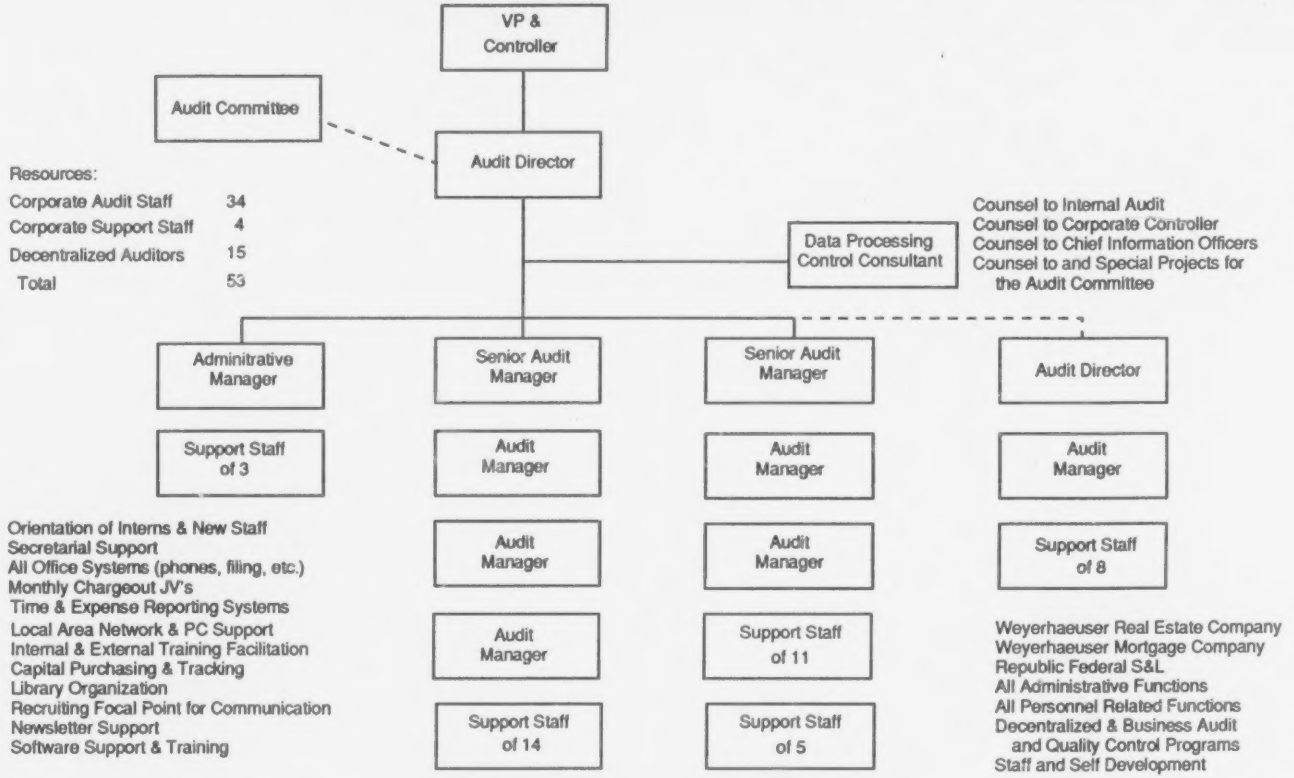
MDV Resources Group
Internal Auditing Department

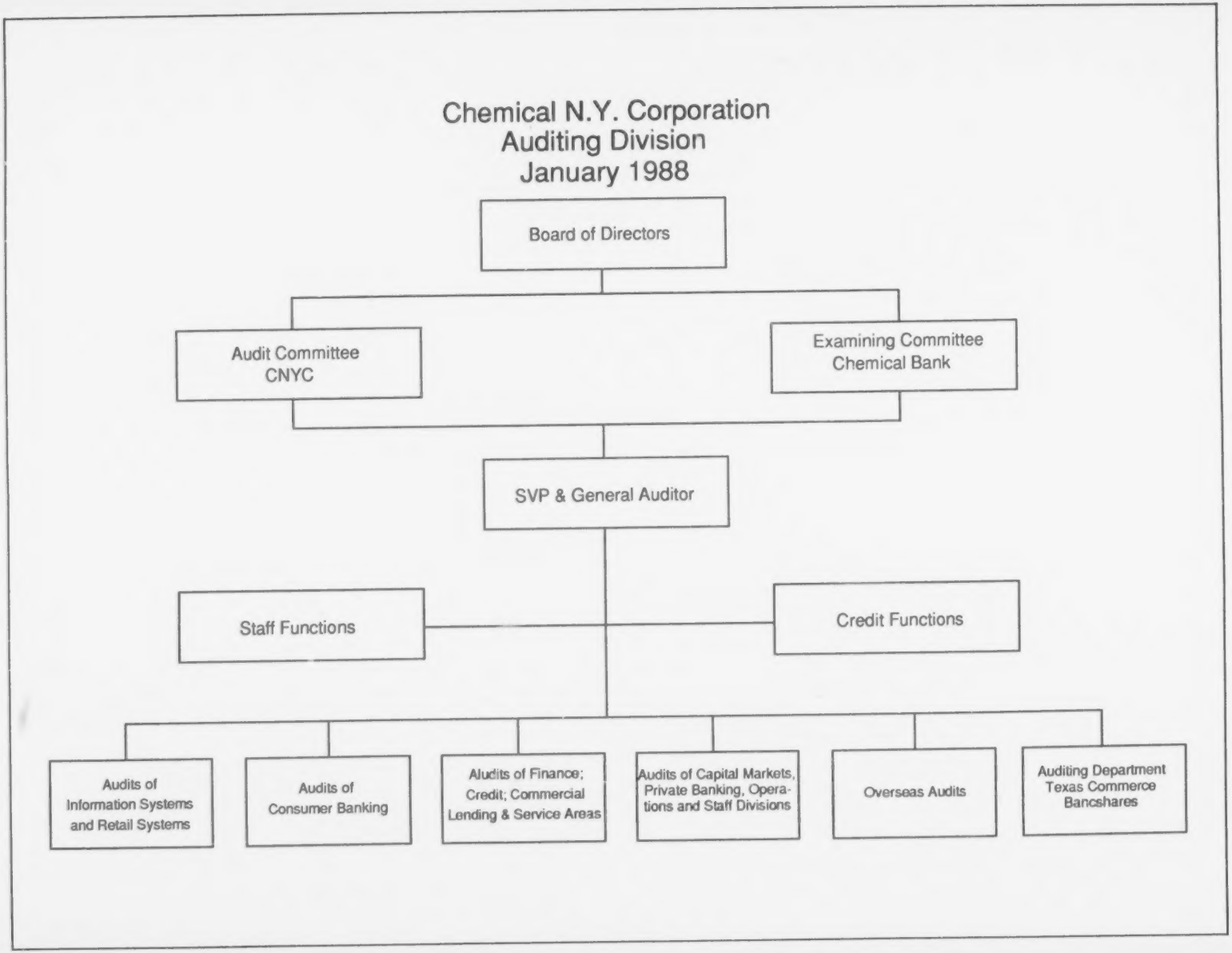


Principal Financial Group
Internal Auditing Organization
June, 1988

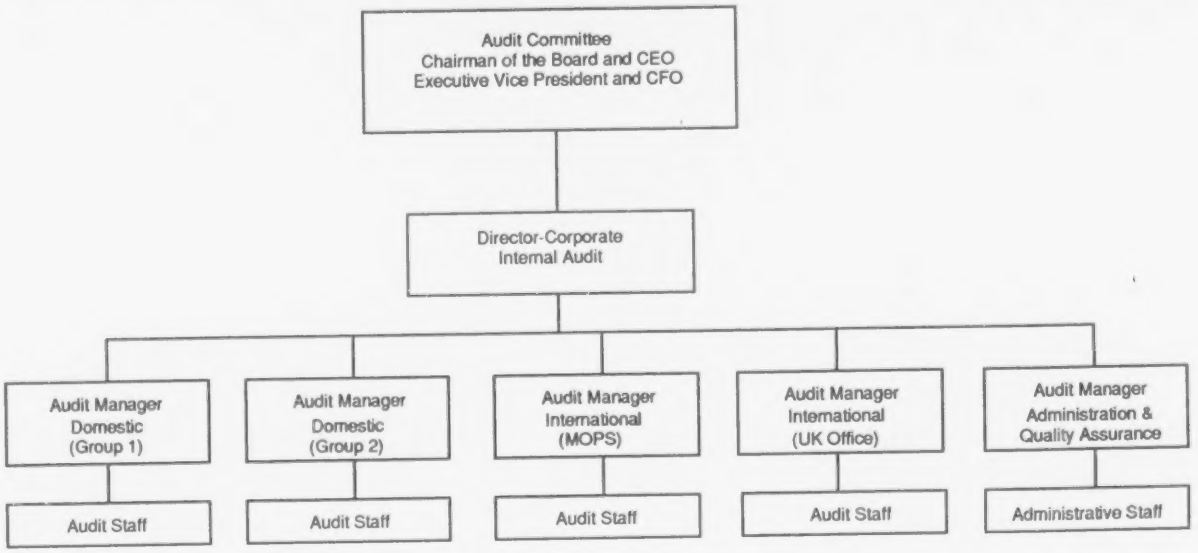


Weyerhaeuser Company
Internal Audit Organization as of 1989




Chemical N.Y. Corporation
Auditing Division
January 1988
Board of Directors
Audit Committee
CNYC
Examining Committee
Chemical Bank
SVP & General Auditor
Staff Functions
Credit Functions
Audits of
Information Systems
and Retail Systems
Audits of
Consumer Banking
Audits of Finance;
Credit; Commercial
Lending & Service Areas
Audits of Capital Markets,
Private Banking, Opera-
tions and Staff Divisions
Overseas Audits
Auditing Department
Texas Commerce
Bancshares

Warner-Lambert Company
Organization Chart



Charter of the Audit Committee of the Atlantic Richfield Company Board of Directors

The Audit Committee of the Board of Directors of Atlantic Richfield Company was formed in 1968. Set forth below are the objectives, policies and functions of the Committee.

Objectives

The objectives of the Audit Committee are:

(1) to assist the Board of Directors in fulfilling its fiduciary responsibilities relating to the Company's financial reporting standards and practices,
(2) to determine the adequacy of and promote the Company's continued emphasis on internal financial controls,
(3) to maintain open, continuing and direct communication between the Board of Directors and both the Company's independent public accounts and its internal auditors, and
(4) to instigate any special investigations of conflicts of interest, and compliance with federal, state and local laws and regulations, including the Foreign Corrupt Practices Act, as may be warranted.

Policies

The following are the primary operating policies of the Audit Committee:

- The Audit Committee shall be composed of three or more outside members of the Board of Directors and shall elect a chairman from among their members to serve in that capacity until a new chairman is elected. Members of the Audit Committee shall be appointed and removed by action of the outside members of the Board of Directors.
- The Audit Committee shall hold such meetings as deemed necessary but shall meet a minimum of three times per calendar year. Minutes of all Committee meetings shall be taken and approved at subsequent meetings.
- Upon the request of the independent public accountants or the Company's General Auditor, the Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matters such auditors believe should be brought to the attention of the Committee, Directors or Shareholders.
- The Audit Committee has the authority to direct and supervise an investigation into any matter, including the authority to retain outside counsel or other professional services.

Functions

The responsibilities of the Audit Committee shall comprise the following:

A. Recommend to the Board of Directors the selection, retention and when necessary, the termination and replacement of the principal (and/or other) firm (or firms) of independent public accounts (i.e. external audiotrss) to examine the consolidated financial statements of the Company.
B. Review with the principal external auditors their audit plans and scope for the coming year and any non-audit services performed or planned. The Committee shall review the compensation paid the external auditors for all audit and other services performed.
C. Review with the external auditors the audit report and their comments arising from the audit.
D. Review with the Company's General Auditor the internal audit organization and the internal audit goals and plans. Discuss the findings and recommendations resulting from internal audits.
E. Review with the Company's Controller the responses taken to the audit findings and the adequacy of the systems of internal financial control.
F. Review the Company's Proxy Statement and the Annual Report to Shareholders and to the Securities and Exchange Commission.
G. Review with the Company's financial management on a periodic basis any changes in accounting principles significantly affecting the Company.
H. Review with the Company's financial management the results of operations, any unusual, non-operating and/or non-recurring items and the general quality of earnings reported by the Company.

The Committee shall meet privately and separtely with the principal external auditors and with the General Auditor a minimum of three times a year to discuss any facts, circumstances or perceptions which auditors feel should be brought to the Committee's attention.

The Committee may delegate some or all of the above responsibilities to its chairman or other committee members.

Old Stone Corporation
Audit Charter

I. **Introduction**

The By-laws of Old Stone Corporation call for the Board of Directors to designate not less than three (3) nor more than five (5) of its member to serve on an Audit Committee with one member named to serve as its chairman. The By-laws state as a general charge that:

"The Audit Committee shall have authority to inquire into, and to make recommendations from time to time to the Board, as to any matter pertaining to the financial condition fo the Corporation and its subsidiaries, including accounting and internal audit procedures and practices."

The By-laws of Old Stone Bank, the principal subsidiary, are similarly written.

Based on this structure and charge, the Audit Charter defines the scope and nature of the audit responsibility for the Audit Committee, Corporate and Subsidiary Auditors, Audit Group, and EDP.

To accomplish the audit goals, there must be a strong spirit of support and cooperation among the Audit Committee, management and the Auditors. There must be a clear understanding that Internal Audit operates under the policies established by management and the Board, and has no authority over or responsibility for the activities that are subject to audit. This independence is crucial to the Audit function's objectivity.

II. **AUDIT COMMITTEE**

The Audit Committee, as a Standing Committee representing the Boards, is an integral part of the overall control system, having the following basic objectives relating to the Corporation and subsidiaries.

A. **Objectives**

1. Ensure that adequate internal and external audit functions are established and maintained on an independent professional basis.
2. Monitor the effectiveness of administrative, accounting and control systems.
3. Review significant audit-related information to determine that is timely, fairly presented and includes appropriate disclosures.
4. Monitor compliance with the Foreign Corrupt Practices Act and other regulatory guidelines.

B. **Scope of Audit Committee Responsibility**

To achieve these objectives, the Audit Committee must delegate the fulfillment of its detail responsibilities to an internal audit staff and an external public accounting firm, relying upon them to function with unrestricted authority authority as an independent part of internal control. The degree of reliance placed on such controls is a Committee decision. The scope of the Audit Committee's responsibility includes, but is not limited to, the following matters:

1. Recommend the appointments of a Corporate Auditor, a Bank Auditor, and other subsidiary auditors as needed.
2. Determine that a competent internal audit organization exists and is adequate to meet needs of the Corporation and its subsidiaries.
3. Recommend annually to the Board of Directors of Old Stone Corporation, for election by the shareholders, the selection of an independent public accounting firm to perform an examination and express an opinion on the financial statements of the Corporation.
4. Review and approve the Annual Audit Program as proposed by the internal auditors and the independent public accounting firm, meeting with each of them quarterly to discuss progress.
5. At least annually, during one of the regular quarterly Audit Committee meetings, meet separately and jointly with the internal/external auditors only to permit open discussion of audit matters as appropriate.
6. Review with management, as is appropriate, compliance with the Foreign Corrupt Practices Act and other Corporate, Bank and subsidiary regulatory agency requirements.
7. Report quarterly, to the full Board, the effectiveness of the bank's overall control systems and audit program and matters relating to policy which require the Board's attention.

Pacific Gas & Electric Company
Audit Committee

Resolution of the Board of Directors of Pacific Gas and Electronic Company, December 17, 1986

BE IT RESOLVED that the Audit Committee of this Board shall consist of three or more directors, none of whom shall be an officer or employee of, or consultant to, this Company or any of its subsidiaries, and one of whom shall be appointed its chairman;

BE IT FURTHER RESOLVED that a quorum of the Audit Committee shall consist of two members;

BE IT FURTHER RESOLVED that the basic responsibility of the Audit Committee shall be to advise and assist this Board in fulfilling its responsibilities in connection with the Company's accounting practices and internal controls, financial reporting practices, internal auditing programs and standards, and controks for avoiding conflicts of interests and complying with general business ethics and policies. More specifically, the Audit Committee shall:

1. Satisfy itself as to the independence of the independent auditors;
2. Recommend the independent auditors to be nominated each year by the full Board;
3. Review and approve the scope of the independent audit, the non-audit services to performed by the independent auditors, and the compensation of such independent auditors;
4. Review and approve the overall mission statement for Internal Auditing as well as the policies and standards relating to the programs of Internal Auditing for carrying out the stated mission;
5. Inquire of appropriate Company officials and the independent auditors as to the adequacy of internal accounting and control systems and financial, administrative, and operational (including construction) auditing procedures, and satisfy itself that any weaknesses in such or procedures, or the implementation thereof, are being corrected in a timely manner;
6. Review the Company's annual financial statements and associated disclosure items as reported to stockholders and governmental agencies with appropriate Company officers and the independent auditors to ascertain that the information in the annual report is consistent with their knowledge of the operations of the Company;
7. Review with appropriate Company officials the existence and adequacy of statements of policy concerning illegal or unauthorized payments, conflicts of interests and general business ethics; and the means used to monitor compliance and dispose of exceptions;
8. Review periodically, and no less than annually, expense reimbursements paid to the Chairman of the Board, Vice Chairman of the Board, President, and each Executive Vice President; and
9. Report periodically on its activities to the Board of Directors.

BE IT FURTHER RESOLVED that officers of the Company shall attend meetings of the Audit Committee only upon the express invitation of the chairman of the Audit Committee; and

BE IT FURTHER RESOLVED that the resolution of the Board of Directors on this ssubject adopted July 20, 1983, hereby rescinded.

Appendix 6: Corporate Internal Auditing Staff Performance Review

Eli Lilly and Company

Performance Review _____

Auditor's Name _____

Assignment _____ Date of Assignment _____

Approximate hours spent on assignment _____ Audit Report Date _____

Reviewer's Name _____ Date _____

I) In relation to the auditor's experience was the assignment
(1) difficult 2) average (3) easy

II) Based on the auditor's experience, appraise the auditor's effectiveness on each of the following performance factors and give **specific examples**, rather than remarks of a general nature, supporting this appraisal in the comments section.

PERFORMANCE FACTORS	Requires Improvement	Meets Job Expectations	Exceeds Job Expectations
1) **Technical/Job Related Skills**			
a) Was knowledgeable of current accounting developments and their practical application			
b) Was knowledgeable of auditing techniques and their practical application			
c) Reviewed existing internal controls and made appropriate evaluations			
d) Was knowledgeable of computer systems and their applications			
e) Was knowledgeable of appropriate corporate and departmental policies and procedures			
f) Reviewed existing controls and procedures to challenge the scope, nature and extend of work			
g) Recognized applicable regulatory requirements (tax, SEC, FDA, etc.) and impact on the assignment			
h) Performed assigned tasks without an unusual degree of supervision			
i) Produced appropriate workpapers			
OVERALL			

COMMENTS: _____

2) **Productivity**			
a) Controlled work and met realistic deadlines			
b) Produced appropriate workpapers and reports for amount of time spent			
c) Used all available resources to complete assignment			
OVERALL			

COMMENTS: _____

3) **Organization/Priority Setting**			
a) Planned, organized, and completed work in appropriate sequence			
b) Kept supervision informed as to status of work			
OVERALL			

COMMENTS: _____

PERFORMANCE FACTORS	Requires Improvement	Meets Job Expectations	Exceeds Job Expectations
4) **Leadership**			
a) Accepted responsibility for assignment			
b) Demonstrated self-confidence			
c) Was sensitive to the ideas and concerns of others			
d) Accepted the judgment and advice of others			
* e) Demonstrated the ability to delegate responsibilities to subordinates			
* f) Assessed subordinates' capabilities and provided required guidance			
*g) Reviewed subordinates' work and communicated required improvements			
* For senior auditors only			
OVERALL			

COMMENTS:_____

5) **Job Relationships**			
a) Maintained and/or developed goodwill of auditee and others			
b) Conducted him/herself in a professional manner at all times			
c) Was effective in dealing with others, including tact and poise			
d) Maintained effective contacts with appropriate management levels			
e) Was able to deal with conflict and criticism			
OVERALL			

COMMENTS:_____

6) **Oral Communication**			
a) Demonstrated a good vocabulary			
b) Used clear, concise, and effective language			
c) Listened well			
d) Tailored presentations to needs of particular audience			
OVERALL			

COMMENTS:_____

PERFORMANCE FACTORS

	Requires Improvement	Meets Job Expectations	Exceeds Job Expectations
7) **Written communication**			
a) Used good vocabulary and grammar			
b) Developed clear, concise findings with understandable recommendations			
c) Adopted an appropriate style/format for the audience			
OVERALL			

COMMENTS: _____

_____

_____

8) **Problem Solving**			
a) Demonstrated an ability to identify and describe accounting, auditing, operational, etc. problems			
b) Developed logical/practical and documented solutions, including alternatives			
OVERALL			

COMMENTS: _____

_____

_____

9) **Attitude/Enthusiasm**			
a) Demonstrated a positive attitude and support of Corporate Internal Auditing's goals policies and procedures			
b) Demonstrated a willingness to work			
c) Accepted constructive criticism			
d) Cooperated with management and peers			
e) Provided assistance to others			
OVERALL			

COMMENTS: _____

_____

_____

10) **Creativity/Innovativeness**			
a) Demonstrated an ability to develop new audit approaches			
b) Demonstrated an ability to develop unique audit recommendations			
c) Accepted and enhanced new ideas of others			
OVERALL			

COMMENTS: _____

_____

_____

PERFORMANCE FACTORS

	Requires Improvement	Meets Job Expectations	Exceeds Job Expectations
11) **Effort**			
a) Demonstrated motivation in performing work, including completeness			
b) Took pride in the finished product			
c) Demonstrated a commitment and dedication to assigned tasks, including disagreeable tasks			
OVERALL			

COMMENTS: _____

_____

_____

12) **Self-Improvement**		
a) Recognized own interpersonal skills and weaknesses and took appropriate action		
b) Recognized own technical skills and weaknesses and took appropriate instruction		
c) Maintained a professional personal appearance		
OVERALL		

COMMENTS: _____

_____

_____

III) REVIEWER'S SUPPLEMENTAL COMMENTS (only include comments not covered above)

_____

_____

_____

_____

_____

_____

IV) AUDITOR'S REACTION TO THIS REVIEW

_____

_____

_____

_____

_____

_____

_____ _____ _____ _____

Auditor's Signature Date Reviewer's Signature Date

Related Conference Board Publications

	Report No.
A Manager's Guide to Corporate Culture	926
The Audit Committee: A Broader Mandate	914
New Patterns in Organizing for Financial Management	839
International Accounting Practices	RB-245
Corporate Leveraging and Financing Plans: 1989-1992	RB-235
Current Practices in Measuring Quality	RB-234
Rating Corporate Finance and Accounting Units	RB-224